Brascan
LIMITED

66th Annual Report 1978

Brascan
LIMITED

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Brascan Limited is an investment management company with interests in Canada and Brazil.

In its operations, Brascan is well aware that its future rests not only on the profitability of business operations but also on the social responsibility it assumes for the benefit of its employees and the societies in which it functions.

Contents

Si vous désirez recevoir un exemplaire en français de ce Rapport, veuillez vous adresser au Secrétaire, Brascan Limited.

Highlights

Dollar amounts expressed in U.S. currency	1978	1977
Dollar income (millions):		
Before extraordinary items	$ 43.6	$ 35.9
Net income for year	43.6	40.4
Consolidated income (millions):		
Before extraordinary items	128.3	145.2
Extraordinary items—		
Loss on sale of Light	(453.6)	
Other		6.0
Net income (loss) for year	(325.3)	151.2
Dividends paid (millions)	31.2	30.8
Per ordinary share		
Dollar income:		
Before extraordinary items	$ 1.57	$ 1.27
Net income for year	1.57	1.44
Dividends paid	1.10	1.08
Consolidated income:		
Before extraordinary items	4.82	5.47
Extraordinary items—		
Loss on sale of Light	(17.41)	
Other		.23
Net income (loss) for year	(12.59)	5.70
Ordinary shares		
Average number of ordinary shares outstanding (millions)	26.1	26.0
Voting shares registered in Canada	69%	66%
Registered shareholders	38,715	41,117

Directors' Report

This has been a momentous year for Brascan marked by, the successful conclusion of the Company's historic role in the development and provision of utilities in Brazil, the strengthening of the Company's capacity to grow and prosper, and the development of plans for a major new commitment of resources.

As Brascan's 80 years of activity in the public service field in Brazil are at an end, it is worth recognizing the Company's decades of contribution and pioneer role in the development of Brazil.

Notwithstanding periods of crisis and emergency which arose on occasion, the Brazilian authorities took an active interest in the operations of Light-Serviços de Eletricidade S.A. (Light), especially since the adoption of the "service at cost" policy. This was done to enhance the quality and expansion of service while respecting the legitimate interests of shareholders.

The dollar component of income before extraordinary items in 1978 increased 21% to $43.6 million* ($1.57 per ordinary share after preferred dividends) compared with $35.9 million ($1.27 per ordinary share) in 1977.

Consolidated income before extraordinary items which includes cruzeiro income translated into dollars as discussed on page 7, for 1978 was $128.3 million ($4.82 per ordinary share after preferred dividends) compared with 1977 earnings of $145.2 million ($5.47 per ordinary share). The loss in 1978 on the sale of shares of Light was reported as an extraordinary item of $453.6 million ($17.41 per ordinary share) which resulted in a net loss of $325.3 million ($12.59 per ordinary share). In 1977 extraordinary gains of $6.0 million ($0.23 per ordinary share) increased net income to $151.2 million ($5.70 per ordinary share).

Sale of Light

Brascan and the Brazilian Government held lengthy discussions over a number of years about the maintenance of the standard of service and the expansion of the system in line with the needs of the growing national economy. These were concluded with the sale of Light to Centrais Elétricas Brasileiras S.A. (Eletrobrás).

In the past few years, Light's increasing level of indebtedness indicated that within the short term, even with the assistance and guaranty of the Brazilian Government, Light's capacity to raise new resources on the international markets would be exhausted. Based on a complete analysis of the problems and potential solutions, we are sure that the transaction is in the best interests of Brascan and its shareholders.

The Brazilian Government has also stated that there is no doubt that this was an excellent purchase for Brazil. The Government will be able to utilize a broader range of solutions to resolve the problems which Light faces. The resolution of these problems is essential for Light to continue to satisfy its service obligations to its customers.

Details of the sale were reported in the press following the initial announcement on December 28, 1978. This information was amplified in a letter to shareholders dated January 4, 1979. A more detailed letter dated February 20, 1979 was also mailed to shareholders. Because of its significance we have reprinted the letter and included it on pages 38 to 42 of this report.

The rationale for the transaction outlined in that letter explains the problems confronting Light and indicates clearly why consideration of the interests of Brascan's shareholders called for acceptance of the Brazilian Government's offer to purchase.

The sale price was $380 million payable in New York and without any reinvestment restrictions. When the sale was concluded on January 12, 1979 Brascan received $210 million in cash and a non interest-bearing promissory note payable in New York on April 12, 1979 for $170 million which was subsequently guaranteed by the Banco do Brasil S.A.

*Dollar figures throughout this report are expressed in United States dollars except where otherwise indicated.

The sale of Light gives Brascan a unique opportunity to carry out an investment program with the potential to earn a much higher proportion of its income in dollars than in the past, to achieve greater growth and to eliminate the financing burden attached to the further development of Light within its existing regulatory environment.

Changes in Accounting Presentation

With the sale of Light, changes have been made in the financial statement presentation of investments in Brazil.

At December 31, 1978 the balance sheet reflects the sale of Light and the proceeds are shown at the present value of the payments due. The 1977 carrying value for this investment is Brascan's portion of the then underlying equity of Light. Brascan's share of Light's income for 1978 and 1977 appears in the statement of consolidated income as income from discontinued operations.

In prior years, the financial position and operating results of all Brazilian subsidiaries were reported on a consolidated basis. With the sale of Light, the importance of the Brazilian investments in Brascan's overall position and operations has been reduced and the financial statements have been altered to reflect this change in circumstances as at December 31, 1978.

The accounts of the remaining Brazilian investments were not consolidated at December 31, 1978 and they are now accounted for on the cost basis (being their equity carrying value at December 31, 1978). The balance sheet at December 31, 1977 has been restated on the equity basis at that date for comparative purposes.

The 1978 operating results of these remaining subsidiaries are shown in the statement of consolidated income as "Investment and Industrial Operations—Brazil" on the same basis as in prior years.

Commencing in 1979 the earnings of the Brazilian investments will be included in income when received by way of dividends as described in Note 3 to the Financial Statements on page 26.

In the future, the income statement will include (a) the income earned by the Canadian operations as in the past, and (b) the income received in dollars in the form of interest or dividends from the Brazilian investments. These are the elements of the dollar component of income as reported in the past.

This form of presentation will more accurately reflect the income available to shareholders and will no longer include cruzeiro income which is not immediately remittable.

Shareholders' Equity

With the sale of Light there has been a marked change in the composition of net assets representing the shareholders' equity. The Company now has a much improved asset distribution and is less dependent on Brazil. The following table shows the extent of this change:

	Millions			
	1978		1977	
Distribution of shareholders' equity:				
Assets outside Brazil	$568	62%	$ 174	14%
Brazilian investments—				
Registered	157	17	371	29
Non-registered	197	21	733	57
	$922	100%	$1,278	100%

When investments in Brazil are registered under Brazilian foreign exchange control legislation, interest and dividends earned thereon may be remitted. Accordingly, as of December 31, 1978, 79% ($725 million) of the shareholders' equity can now produce dollar income compared with 43% ($545 million) at December 31, 1977.

Shareholders' equity is set out in greater detail on page 7.

Investments in Canada

Net income increased to $11.7 million in 1978 from $6.7 million for 1977. Results for 1978 are after deduction of translation losses of $4.4 million (1977—$2.8 million) arising from the continued decline of the Canadian dollar against the U.S. dollar.

This improvement in results was attributable to increased earnings from Brascan Resources, London Life and Great Lakes Power. Cash flow from the operations of Brascan Resources increased to $16.8 million from $14.0 million in 1977. Expenditures on land purchases, exploration and development totalled $13.7 million in 1978 (1977—$9.1 million).

The operating results of the individual sectors are discussed in detail on pages 8 to 11.

Investments in Brazil

In 1978 the investment group in Brazil had net earnings of $6.1 million compared with $9.6 million in 1977. The reasons for the decline in earnings and details of the operating results of the individual sectors are more fully discussed on pages 12 and 13.

While the sale of Light has reduced Brascan's prominence as a foreign investor in Brazil, it still has substantial and varied interests in that country. The carrying value of these is $358.3 million, as shown in the Consolidated Balance Sheet.

Outlook

Our letter to shareholders dated February 20, 1979 summarized the alternatives examined for the application of the proceeds from the sale of Light. Brascan now has substantial resources to make attractive acquisitions in areas of interest. This constitutes an exceptional opportunity for the Company and its shareholders. We are continuing to examine investment opportunities which we believe are appropriate for Brascan.

In the meantime the U.S. dollars received from the sale of Light have been invested in short-term bank deposits yielding in excess of 10% per annum. The interest income earned will be sheltered from income tax by certain available tax deductions. In the absence of any acquisitions prior to the end of the year, and assuming no significant changes in interest rates, income for 1979 would approximate $2.00 per ordinary share. The objective of the plan for investment of the sale proceeds is to achieve earnings in excess of this amount.

Board of Directors

Mr. Louis A.-Lapointe, a Company Director since June, 1969, died in May, 1978. His valuable contribution to the Company over the years was deeply appreciated.

Executive Appointments

In September Mr. P. V. Gundy joined Brascan as Vice-President and Assistant to the Executive Vice-President.

Management and Employees

On behalf of the Board, we express our appreciation to all employees and management in Canada and Brazil on concluding a very difficult and successful year.

We also extend a special tribute to all the employees and management of Light, past and present, for their loyalty, devotion and effort in creating and operating one of the "largest and best-run electric utilities in the world"*.

On behalf of the Board of Directors,

J. H. Moore
Chairman

E. C. Freeman-Attwood
President

*From the White Paper re Acquisition of Light by Eletrobrás, Ministry of Mines and Energy, Brasília, February, 1979.

Brascan Operations and Investments

Canada

Natural Resources

Brascan Resources Limited: 99%

Natural resource exploration, development and production company with interests in oil, gas and coal properties in Western Canada, the Arctic and the United States.

Western Mines Limited: 51%

Copper, lead, zinc, silver and gold mine with exploration programs for uranium and base metals.

Consumer Goods and Services

John Labatt Limited: 24%

A broadly based food and beverage company with interests in: brewing, wines, consumer foods, food services and secondary agricultural processing.

Utility

Great Lakes Power Corporation Limited: 99%

Generation and distribution of hydro-electric power in the Sault Ste. Marie area of northern Ontario.

Financial Services

London Life Insurance Company: 24%

Canadian life insurance company providing insurance and benefit services.

Triarch Corporation Limited: 63%

Merchant banking, investment services and term lending.

Brazil

Financial Services

Banco Brascan de Investimento S.A.
and associated companies: 100%
Investment bank, wholesale credit, leasing and consumer financing, money market operations, private and institutional portfolio management, insurance brokerage.

Consumer and Industrial Goods and Services

Cervejarias Reunidas Skol-Caracú S.A.: 45%

Beer and soft drink production joint venture with John Labatt Limited, with plants in: São Paulo, Rio de Janeiro, Belo Horizonte, Brasília, Londrina, Rio Claro and Santos.

Swift-Armour S.A.—Indústria e Comércio: 42%

Operations include cattle-raising, meat processing and consumer products.

FNV—Fábrica Nacional de Vagões S.A.: 31%

Manufactures railroad, automotive and earth moving equipment.

Brink's S.A. Transporte de Valores: 49%

Specialized transportation services for banks in Brazil.

Embrasca—Empreendimentos Florestais e Agrícolas Ltda.: 49%

Reforestation for future industrial use.

Real Estate Development

Brascan Imobiliária S.A. (BISA): 100%

Real estate development.

Gávea Hotelaria e Turismo S.A.: 60%

500-room Rio Inter-Continental Hotel.

Laranjeiras: 49%

Coastal resort development between Rio de Janeiro and Santos.

Natural Resources

Companhia de Mineração Jacundá S.A.: 93%

Alluvial tin mining in the territory of Rondonia.

Promisa Mineração e Prospecções Minerais S.A.: 100%

Mineral exploration.

Percentage figures represent Brascan's ownership.

Review of Operations

The review of operations is divided into three sections. The two principal sections review the progress made in 1978 in Canadian and Brazilian investments. In the third section a summary of Light's 1978 results is presented.

Dollar Component of Income

The dollar component of income for 1978 increased 21% to $43.6 million ($1.57 per ordinary share after preferred dividends) from $35.9 million ($1.27 per ordinary share) in 1977 ($40.4 million and $1.44 per ordinary share after extraordinary items). The major contributing factors were improved income from investment and industrial operations in Canada and an increase in dividend remittances from Light.

Only the dollar component of net income is available for corporate purposes and the payment of dividends. The growth of this component over the past 5 years is shown in the following table:

Dollar Income Before Extraordinary Items

	Millions				
	1978	1977	1976	1975	1974
Investment and Industrial Operations:					
Canada	$11.7	$ 6.7	$ 4.5*	$(0.4)	$ 1.5
Brazil—Dividends (net)	4.3	3.4	2.9	4.4	3.7
—Interest (net)**	7.7	8.5	9.3	9.9	10.5
	23.7	18.6	16.7	13.9	15.7
Dividends from Light (net)	27.0	23.8	23.5	23.2	20.6
	50.7	42.4	40.2	37.1	36.3
General Corporate Expenses	(7.1)	(6.5)	(6.5)	(5.5)	(5.0)
Total	$43.6	$35.9	$33.7*	$31.6	$31.3
Dollar Income per Ordinary Share	$1.57	$1.27	$1.22*	$1.15	$1.11

*Before deduction of deferred mine development expenditures of $9.8 million ($0.38 per ordinary share).
**Includes interest from Series "B" debentures.

Sources of Dollar Component of Income

During the year the Company received substantially all dollar amounts to which it was entitled within existing registrations.

The dollar component of income is derived from assets invested outside Brazil and from investments registered in Brazil. The composition of net assets has changed significantly with the sale of Light and the position at December 31, 1978 and 1977 is summarized as follows:

	Millions 1978	1977
Canada:		
Investment and industrial operations	$190	$ 174
Proceeds on sale of Light (net)	378	
	568	174
Brazil:		
Registered—		
Equity:		
Investment and industrial operations	56	52
Light		209
Debt:		
Government-guaranteed obligations(1)	43	47
Light debentures(2)	58	63
	157	371
Non-registered—		
Equity:		
Investment and industrial operations	197	160
Light		573
	197	733
	354	1,104
	$922	$1,278

(1) Payable in dollars over next 8 years.

(2) Payable in dollars over next 10 years.

Foreign shareholders may remit in dollars a percentage of the dividend payable to them equal to the percentage which their registered capital is of their total capital. Such remittances are subject to the normal 25% withholding tax payable by foreign residents. Heavy supplementary withholding taxes apply to dollar dividends remitted, to the extent that these exceed in any one year, 12% of the registered dollar capital, averaged over the preceding three-year period.

Dividends

During the year, in addition to dividends on preferred shares, the Company paid four quarterly dividends of U.S.$0.25 on its ordinary shares as well as an extra dividend of U.S.$0.10.

Translation of Currencies into U.S. Dollars

In computing the income of Canadian subsidiaries, revenue and expenses in Canadian dollars were translated into U.S. dollars in 1978 at the average exchange rate for the year of Can$1.00 = U.S.$0.8776 (1977—US$0.9410) except for depreciation, depletion and amortization which were translated at the same rates as those used for translation of the related assets.

The year-end rate of exchange was Can$1.00 = US$0.8435 (1977—US$0.9142).

In computing the income of the Brazilian subsidiaries, cruzeiro revenues and expenses were translated into dollars in 1978 at the average exchange rate for the year of Cr$18.074 (1977—Cr$14.165) except depreciation which was translated at the same rate as that used for translation of the related assets.

The year-end rate of exchange was Cr$20.920 compared with Cr$16.050 at the previous year end. During the year the external devaluation of the cruzeiro expressed in terms of U.S. dollars was 23.3%. In 1977 the comparable figure was 23.1%.

Investments in Canada

Investments*

	Millions			
	1978		1977	
	Assets	Equity	Assets	Equity
Natural resources	$107.5	$ 90.1	$102.9	$ 91.0
Consumer goods and services	65.7	65.7	60.2	60.2
Electric utility	60.5	50.6	60.8	53.3
Financial services	31.0	24.4	24.8	19.1
Other assets	90.1	64.6	79.0	59.7
Long-term debt		(105.1)		(109.2)
	$354.8	$190.3	$327.7	$174.1

*Book values.

Income

	Millions	
	1978	1977
Income (loss) by segment before unallocated expenses:		
Natural resources—		
Oil and gas	$13.9	$10.7
Mining	4.3	0.8
Mineral exploration	(0.9)	(1.8)
Consumer goods and services	0.5	4.5
Electric utility	9.9	5.4
Financial services	1.8	0.7
Other interest income—net	4.4	2.4
	33.9	22.7
Expenses not allocated by segment:		
Interest on long-term debt	(11.0)	(11.4)
Minority interest	(1.7)	(0.7)
Income taxes—Current	(0.8)	(0.3)
—Deferred	(8.7)	(3.6)
Income	$11.7	$ 6.7

Investments in Canada have again produced good earnings and growth in cash flow. Earnings from operations increased to $11.7 million in 1978 from $6.7 million in 1977.

Because of the steady decline in the value of the Canadian dollar against the U.S. dollar, translation of Canadian earnings into U.S. dollars continued to affect reported profits adversely. Exchange losses on translation totalled $4.4 million in 1978 compared to $2.8 million in 1977.

Natural Resources

Brascan Resources Limited

Oil and Gas Operations

Income before interest and income taxes for 1978 was $13.9 million, an increase of 30% over the $10.7 million in 1977.

Gross sales of the oil and gas division were $20.0 million in 1978 compared to $16.7 million in 1977. The gain was attributable to higher prices which averaged $1.35 per thousand cubic feet (Mcf) for natural gas (1977—$1.21) and $10.76 per barrel of oil and condensate (1977—$9.57). Sales volumes remained relatively constant for 1977 and 1978.

Cash flow from oil and gas operations again exceeded exploration expenditures. Cash flow was $16.8 million for 1978, 20% above 1977's $14.0 million.

During 1978, gas plant capacity was unchanged. Natural gas production for 1978 was 14.8 billion cubic feet (Bcf), unchanged from 1977.

Due to the over supply of gas, the company's shallow gas exploration program was restricted in 1978 to those areas in which wells were needed to meet existing gas contracts and to maintain land positions.

Greater effort was directed toward exploration in oil prone areas of Canada and the United States. Considerable emphasis was placed on acquiring and exploring prospects with other companies where larger scale reserves of oil and gas could be anticipated.

As a result of this expanded program, expenditures for land holdings and participation with others in exploratory projects were at an all time high. Competition for oil and gas lands in Canada remained intense throughout the year forcing land acquisition costs sharply upward.

Capital expenditures were increased by 50% compared with 1977 as follows:

	Millions 1978	1977
Exploration (land acquisitions, geological and geophysical costs and exploratory drilling)	$ 9.6	$6.2
Development (development drilling, plant and equipment)	4.1	2.9
	$13.7	$9.1

Brascan Resources has approximately 98 Bcf of shut-in gas reserves in Alberta. This is a direct consequence of the success of the company's exploration and development program and the reduced rate of increase in demand for natural gas. However, with anticipated approvals for increases in natural gas exports to the United States, the company expects to secure contracts enabling it to put its reserves into production in the next few years.

In the year oil and natural gas rights owned by the company were selectively reduced to 9.5 million gross acres from 10.7 million. Brascan's net interest at year end however, remained at 2.9 million acres, the same as at December 31, 1977.

Estimated proven recoverable oil and gas reserves were:

Proven Reserves	Crude Oil and Natural Gas Liquids (millions of barrels)	Sales Gas (billions of cubic feet)
1978	3.2	275.6
1977	2.7	275.5

New discoveries of natural gas in 1978 were estimated at 20.5 Bcf. A net increase in proven reserves of sales gas of 0.1 Bcf was achieved after the deduction of 1978 production and adjustments to previously discovered reserves.

New discoveries of crude oil and natural gas liquids in 1978 were estimated at 598,000 barrels. A net increase in proven reserves of 450,000 barrels was achieved after deduction of 1978 production and adjustments to previously discovered reserves.

Exploration

The company participated in drilling 106 gross wells during 1978. This activity resulted in the completion of 22 oil wells, 30 gas wells and 54 dry holes. Other operators drilled 15 wells on Brascan properties which resulted in 2 oil wells, 8 gas wells and 5 dry holes.

Drilling Statistics	Oil	Gas	Dry	Total
Gross	22	30	54	106
Net	16	15	19	50
Royalty	2	8	5	15

Numerous opportunities in the United States were evaluated during the year and the company participated in a large land package and multiple well drilling program in Nebraska which resulted in 4 oil and 2 gas discoveries. Commitments were made on two other drilling programs in Texas and Louisiana which will be carried out in 1979.

A comprehensive geophysical program was conducted during the year on the company's extensive holdings in the Powder River Basin of Montana. It is anticipated that a number of wells will be drilled there in 1979.

In the company's frontier land holdings in the Beaufort Sea, Arctic Islands and offshore Labrador, the policy to date has been one of encouraging other companies to participate in high risk exploration programs in exchange for a working interest.

In 1978 Dome Petroleum drilled the Ukalerk well on the company's acreage in the Beaufort Sea to a depth of 15,250 feet. Brascan Resources has a retained interest of 6.1% in this property. Dome has indicated that it intends to carry out further drilling during the 1979 summer season in this and other locations in the Beaufort Sea in which Brascan holds an interest.

Drilling was also carried out by Imperial Oil in the Beaufort Sea on its Isserk E-27 well in which Brascan Resources has a retained interest of 3%. Further work on this project is planned.

Chevron made a significant gas discovery on the company's Hopedale property offshore Labrador. Chevron and its partner, Petro Canada, have an option to drill a second well to earn an interest in the balance of the 753,000 acre Hopedale property. Brascan Resources' retained interest will be 7.43%.

Coal

Brascan Resources' thermal coal reserves in Alberta represent a valuable segment of the company's energy resources. The company holds 500,000 acres of thermal coal lands in the Alberta plains of which approximately 100,000 acres lie within twenty miles of the two Calgary Power generating plants, Whitewood and Highvale in the Wabamun area. The company's holdings in the plains area contain approximately 500 million tons of coal reserves in areas favourable for strip mining and an additional 475 million tons of coal reserves which may be examined in the future for coal gasification projects.

The company stepped up its program to secure coal prospects in western Canada. During the year approximately 31,000 acres of Crown land was acquired near Radway, Alberta, in an area of near-surface low ash coal. The company was the successful bidder with Pan Canadian for 11,000 acres of Crown coal leases situated northwest of Wabamun. Drilling programs designed to evaluate this coal and its depth will be undertaken on these properties in 1979.

Western Mines Limited

Mining Operations

Income before interest and taxes increased to $4.3 million from $0.8 million in 1977. The increase in earnings was primarily the result of a firming of all metal prices in the second half of the year.

Total ore reserves at the Lynx and Myra mines, on Vancouver Island, now stand at 1,272,940 tons. Production of 296,000 tons in 1978 exceeded newly delineated ore by 187,000 tons. In order to reverse the declining trend in ore reserves, efforts are being intensified to find new ore bodies at the mine.

Outside Exploration

Total outside exploration expenditures were $3.1 million including $1.7 million of expenditures incurred on behalf of joint venture partners.

A total of 62,000 feet of exploration drilling was carried out on the Great Slave Reef and West Reef projects, Pine Point, Northwest Territories, in which Western Mines is the operator and holds a working interest of 40%. The remaining interests in the joint venture are held 50% by Du Pont of Canada Exploration Ltd. and 10% by Phillipp Bros. (Canada) Ltd.

Indicated reserves at year end were 5.7 million tons grading approximately 9% combined lead/zinc. This represents an increase of 1.9 million tons over 1977. By year end a new mineralized zone had been identified and exploratory diamond drilling was continued into 1979.

Exploration for base and precious metals is underway at a number of other locations in Canada.

Exploration for uranium was carried out in Saskatchewan and in the Baker Lake (Dubawnt area) of the Northwest Territories under a joint venture agreement with the Central Electricity Generating Board Exploration (Canada) Ltd.

In the Dubawnt area preliminary exploration work disclosed several interesting potential uranium occurrences on the company's lands which lie north of a recent significant uranium discovery. This discovery indicates that the Dubawnt area has excellent potential for uranium reserves comparable in magnitude to those in Saskatchewan.

Electric Utility

Great Lakes Power Corporation

Income before interest and taxes from the electric utility operations of Great Lakes Power at Sault Ste. Marie, Ontario, increased 83% to $9.9 million in 1978, compared to $5.4 million in 1977 due to larger volumes of available water.

Energy sales for 1978 were 1,971 million kilowatt hours, an increase of 2.6% over 1977.

In 1978 power purchases from Ontario Hydro were less than in 1977 due to improved water conditions. Reservoir levels were normal at year end.

In 1978 capital expenditures amounted to $2.1 million for transmission and distribution systems, improvements to general facilities, and engineering studies on the new St. Mary's River plant.

In December 1978, the company announced its decision to proceed with the construction of a hydro-electric generating plant which will replace the existing plant on the St. Mary's River. The new plant will increase generating capacity at the site from 20,000 kw to 52,000 kw. The cost of the project is estimated at Can.$95 million. It will be funded initially through bank loans followed by appropriate debt financing in line with normal electric utility financing practices.

The bulb-type turbine generators for the plant, which will be manufactured in Canada, will be the first of their kind to be produced in North America. The plant is scheduled to be completed and in service by the end of 1982.

Consumer Goods and Services

John Labatt Limited

Gross sales for the six months ended October 31, 1978 were Can.$555 million, an increase of 9.7% over the Can.$506 million reported for the same period in 1977. Net earnings for this period were down 25% to Can.$14.4 million from Can.$19.3 million in the same period last year. On a fully diluted basis earnings per share were Can.$1.08 compared to Can.$1.42 in the same period in 1977.

The decline in earnings reflects lower brewing results due to industry-wide work stoppages in Western Canada. The disruption in production and sales had an estimated after-tax cost of Can.$7 million or Can.$0.49 per share in the six months. Earnings and market share are expected to return to normal levels during the balance of Labatt's fiscal year.

Good profit results from the consumer products group and agri products group helped to offset the shortfall in brewing operations. In consumer products, Laura Secord's results continued to improve with the introduction of a new "Laura Secord" line of chocolate bars. Wine operations showed good results and a new white table wine "Alpenweiss" was well received by the Ontario market. The 1978 grape crush at the Lamont winery in California was of excellent quantity and quality.

Agri products group results were significantly above those of the same period last year, highlighted by earnings gains at Ault, Ogilvie Flour and Feeds Divisions.

During the year John Labatt and Redpath Industries agreed to build a Can.$60 million corn wet milling plant in London, Ontario. It will operate under the name Zymaize Inc. and is scheduled for completion in mid-1980. The principal product will be high-fructose syrup, a substitute for liquid corn and beet sugar.

Financial Services

London Life Insurance Company

Brascan's share of net income rose to $2.4 million for the year ended December 31, 1978. In the six months to December 31, 1977, following the acquisition of this investment, Brascan's share of income was $0.5 million.

Part of the increase in London Life's net income for the year is attributable to major changes in financial reporting requirements for life insurance companies. These came into effect in 1978 through revisions in the Canadian and British Insurance Companies Act. The purpose of the changes was to give a more realistic presentation of current income, to provide more comparability among financial reports of insurance companies and to allow for better recognition of investment income.

During the year, London Life continued to expand its business. The company issued more than Can.$1.1 billion of group life insurance, an increase of 31% from 1977 and life insurance sales reached a record Can.$2.5 billion in 1978. Life insurance in force as of December 31, 1978 was Can.$27.4 billion, an 11.6% increase over 1977. Assets increased 10.1% to Can.$3.2 billion in 1978 from Can.$2.9 billion in 1977.

At year end, the company provided Canadians with a total of almost Can.$18.5 billion of individual life insurance protection. This was a 9.1% increase over 1977.

Investments in Brazil

Economic Review

1978 was a difficult year for the Brazilian economy. Inflation persisted at a 40% level. Falling world coffee, soya and cocoa prices and the effects of the worst drought in the last thirty-five years lowered the value of total exports. Deficits, in both trade and service accounts, together with an increase in interest payments on foreign debt resulted in an estimated current account deficit of U.S.$5.9 billion.

Despite agricultural setbacks, the domestic economy had an estimated overall economic growth of 6% for 1978 and was highlighted by industrial output which increased by 8%.

Brazilian Operations

Investments*	Millions			
	1978		1977	
	Assets	Equity	Assets	Equity
Financial services	$357.9	$100.9	$277.6	$ 96.6
Consumer and industrial goods and services	69.1	69.1	54.9	54.9
Real estate development	59.7	41.1	44.9	20.9
Natural resources	10.0	7.8	4.1	2.2
Other assets	35.2	32.6	40.4	37.2
	531.9	251.5	421.9	211.8
Government-guaranteed obligations	43.2	43.2	46.7	46.7
Total assets	$575.1	$294.7	$468.6	$258.5

*Book values.

Income	Millions	
	1978	1977
Income (loss) by segment before unallocated expenses:		
Financial services	$ 7.8	$ 9.3
Consumer and industrial goods and services	(2.4)	6.5
Real estate development	0.3	1.9
Natural resources—		
Mining	3.5	0.8
Mineral exploration	(3.3)	(5.2)
Interest under telephone sale agreement	2.6	2.9
Other income—net	11.9	8.5
	20.4	24.7
Expenses not allocated by segment:		
General and administrative	(7.0)	(7.7)
Income and withholding taxes	(7.3)	(7.4)
Income	$ 6.1	$ 9.6

Financial Services

Income from the financial services group declined to $7.8 million in 1978, from $9.3 million in 1977.

The increase in the volume of loans booked by Banco Brascan in its credit operations, was insufficient to compensate for the sharp decline of margins. An increase in the cost of money, combined with a decrease in demand from prime clients affected Banco Brascan's competitive position in these activities. The Bank's fund and portfolio management and retail credit operations continue to grow both in volume and in profits.

Consumer and Industrial Goods and Services

Consumer and industrial goods and services incurred a loss of $2.4 million in 1978 compared with a 1977 profit of $6.5 million. The loss in 1978 was due to poor results in the brewing and meat processing sectors.

Skol-Caracú had a loss for the year due to delays in start-up and financing expenses associated with the construction of the new São Paulo brewery. Changes have been made to strengthen the management of this company. By year end, this joint venture with John Labatt Limited was producing and selling beer and soft drinks at close to capacity.

The meat processing operations of Swift-Armour continued to suffer shrinking margins due to the shortage and high prices of cattle, and the continuing unprofitable conditions in export markets.

FNV produced better results in 1978 than in the previous year. Increased shipments of railroad cars more than compensated for reduced automotive part production.

During the year a review was made of Brascan's 49% interest in Brinks S.A. and the shareholders' agreement has been renegotiated with Brinks Inc. of the U.S., the majority partner. This company provides specialized transportation services. Earnings in 1978 increased over the previous year.

Embrasca, the land acquisition, clearing and tree planting program in Brazil is continuing as planned.

Embrasca was started on a joint-venture basis in 1974 with MacMillan Bloedel Limited of Vancouver, Canada. The plan is to have 33,000 hectares cleared and reforested by 1983.

Real Estate

BISA, Brascan's real estate company, successfully launched its first two residential condominium projects in Rio de Janeiro in late 1978 and early 1979.

The Rio Inter-Continental Hotel had a record year with higher occupancy rates and improved margins.

Natural Resources

Income from the tin mining operations in 1978 was a record $3.5 million compared to $0.8 million in 1977. Following an aggressive mineral exploration program, a new alluvial tin mine was brought into production in December, 1978 which, together with strong tin prices, contributed to the improved performance. This mine triples the company's output.

The diamond exploration program continued and a pilot plant for the separation and production of diamonds was started in 1978.

Light-Serviços de Eletricidade S.A.

Subsequent to the year end, on January 12, 1979, Brascan sold its 83% interest in Light to Eletrobrás, the national power company owned by the Government of Brazil. Brascan has accordingly reported its share of Light's income for the year as income from discontinued operations.

Although Light's rate base continued to grow during the year, net income was reduced and Brascan's share excluding intercompany interest fell from $130.1 million in 1977 to $112.7 million in 1978 resulting in a zero growth rate over the last five years.

Light's rate of return dropped to approximately 10% in 1978, its lowest since the maximum allowable rate was increased to 12% in 1972. This decline was due to inadequate rates which were increased, on average, by only 32% in January 1978 as compared with an annual inflation rate in excess of 40% during both the preceding year and 1978.

Another major factor contributing to a lower net income was an increase in Light's debt from $805 million in 1977 to $1,050 million in 1978 combined with an increase in the interest cost of that debt from 9.17% per annum to 10.24% per annum. Interest rates on approximately 70% of Light's debt are based on premiums over the London Interbank Offered Rate (LIBOR). Based on current LIBOR rates the effective cost of borrowed funds would now be approximately 14% or 4% greater than Light's allowed return in 1978.

In 1978, Light sold 38.5 billion kilowatt hours, an increase of 8.4% over the preceding year. Industrial consumption increased by 10.4% over the previous year and constituted 53.7% (1977—52.6%) of total energy billings. Again, the number of consumers increased. In 1978, the increase was 4.5% to 4.6 million at year-end. Light purchased 81.6% (1977—76.6%) of its energy requirements from government-owned generating companies.

Capital Expenditures and Financing

Accompanying the growth of industrial output in Brazil, most of which occurred in Light's highly industrialized concession area of São Paulo and Rio de Janeiro, the demand for increased service continued unabated. Capital expenditures during the year totalled $308 million compared with $285 million in 1977. External borrowings for the year amounted to approximately $300 million.

Outlook

The outlook for Light was for a continued high level of capital expansion in excess of $2 billion over the next five years if it was to provide adequate service to meet the ever increasing needs of its concession area. It was no longer practical for a private company to continue such a program.

Under private ownership Light had been brought to a high level of efficiency with the installation of modern distribution equipment. Under Government ownership Light will be better able to fulfill its historic mission of providing service in the Rio-São Paulo region.

Summary Statement of Income

	Millions 1978	1977
Operating revenues	$1,454.3	$1,303.7
Operating revenue deductions		
Purchased power	745.3	673.0
Salaries, wages and other	314.8	259.4
Depreciation	75.4	59.0
Reversion	85.1	92.2
	1,220.6	1,083.6
Operating income	233.7	220.1
Income deductions		
Interest on long-term debt	75.1	53.6
Other interest expense net	(1.8)	1.7
Minority interest, taxes and other	47.7	34.7
	121.0	90.0
Net electric utility income—Brazil	$ 112.7	$ 130.1

	1978	1977
Rate of return	10%	12%
Rate base*(millions)	$ 2,065	$ 1,740
Capital additions (millions)	$ 308	$ 285
Employees	32,000	31,729
Per million kilowatt hours	.84	.89
Sales kwh (billions)	38.5	35.5

*At average U.S. dollar/cruzeiro exchange rate for the year.

Summary Balance Sheet

	Millions 1978	1977
Assets		
Current assets	$ 374.4	$ 288.1
Other assets	73.7	64.7
Property, plant and equipment at cost	2,703.2	2,383.8
Less accumulated depreciation	594.0	522.0
	2,109.2	1,861.8
	$2,557.3	$2,214.6
Liabilities and Shareholders' Equity		
Current liabilities	$ 237.0	$ 213.6
Current portion of long-term debt	78.2	79.4
	315.2	293.0
Other liabilities—		
Long-term debt	971.6	725.5
Other	214.5	211.3
	1,186.1	936.8
Shareholders' equity	1,056.0	984.8
	$2,557.3	$2,214.6

Responsibility for Financial Statements

The attached financial statements have been prepared by the management of the Company which is responsible for their integrity and objectivity. To fulfil this responsibility the Company maintains systems of internal controls, policies and procedures and ensures that its reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable costs. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should not exceed the benefits derived. The Company believes its systems provide an appropriate balance.

The financial statements have been examined by the Company's independent auditors, Clarkson, Gordon & Co., and their report is shown on page 37. To express the opinion set forth in their report, the auditors develop and maintain an understanding of the Company's accounting and financial controls. It is neither practical nor necessary for them to examine all of the Company's transactions but they conduct such tests as they consider necessary to arrive at a professional opinion.

The statements have been further examined by the Board of Directors and its Audit Committee whose members are listed on page 43 of this report. This committee meets regularly (separately and jointly) with the independent auditors and management to review the activities of each and it reports to the Board of Directors. The independent auditors have full and free access to the Audit Committee.

Summary of Accounting Policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and in the light of information available up to March 1, 1979. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

These accounting policies have also been applied in preparing the combined financial statements of the Brazilian subsidiaries excluding Light-Serviços de Eletricidade S.A. (Light)—collectively known as *Brascan Brazil*—included herein.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its majority-owned subsidiaries outside Brazil.

The principal operating subsidiaries consolidated are:

	% Owned
Great Lakes Power Corporation Limited	99%
Brascan Resources Limited	99%
Western Mines Limited	51%
Triarch Corporation Limited	63%

The costs of acquiring each subsidiary are allocated to its identifiable net assets on the basis of the lower of cost and estimated fair values at the date of acquisition with any excess being carried as goodwill.

Such goodwill, included in sundry assets on the balance sheet, is amortized over its estimated life (not exceeding 40 years) subject to writing off additional amounts where it is estimated that the value of the unamortized balance has been permanently impaired.

Basis of accounting for non-consolidated long-term investments

Investments in which significant influence exists and investments in corporate joint ventures are carried on the equity method. Under the equity method, investments are carried on the balance sheet at cost plus the related share of undistributed earnings.

The share of annual net earnings is computed in the same manner as for consolidated subsidiaries (including amortization of any goodwill arising from acquisitions made after April 1, 1974) and is reflected currently in income rather than when realized through dividends, which when received are deducted from the carrying value of the investment.

Other investments are carried at cost less any amounts written off.

As explained in note 1 to the financial statements, the Company has sold its shares of Light. In order to segregate the financial position and results of Light, these consolidated financial statements include the accounts of that subsidiary on the equity method of accounting for 1977 and 1978, not on the consolidated method as previously presented to shareholders. The accounting policies relating to Light, which have been described in detail in previous Annual Reports, were applied in determining its income for the year ended December 31, 1978.

Prior to December 31, 1978 the consolidated financial statements included the accounts of all Brazilian subsidiaries. On December 31, 1978, the practice of carrying *Brascan Brazil* at cost (being equity carrying value at December 31, 1978) was adopted. The effects of and reasons for this change in presentation are described in note 3 to the financial statements.

Translation of foreign currencies

The financial statements are expressed in United States dollars.

Those assets, liabilities, revenues and expenses in currencies other than United States dollars have been translated into

United States dollars substantially as follows:

- Current assets (other than inventories) and current liabilities at the rates of exchange prevailing at the balance sheet date;
- Long-term debt at the rates prevailing when the proceeds were converted;
- Other assets (including inventories) and liabilities at rates prevailing when they were acquired or incurred;
- Revenues and expenses at average rates for the period except for depreciation, depletion and amortization provisions, which are at the rates used for translation of the related assets.

The application of these procedures gives rise to exchange translation gains and losses, the net amounts of which are included in income as foreign exchange adjustments.

Income and withholding taxes

Income and withholding taxes are accounted for on the tax allocation basis.

Full provision has been made for Brazilian withholding taxes on interest accrued and on subsidiaries' earnings to December 31, 1978 to the extent that distribution of such earnings by way of cash dividends is expected in the future. Since the remaining undistributed earnings of *Brascan Brazil* are being reinvested on a long-term basis no withholding taxes have been provided thereon.

Dollar income

The term "Dollar Income" has been used in the Statement of Consolidated Dollar Income to describe that portion of net income earned substantially in dollars outside Brazil together with dividend and interest remittances in dollars from *Brascan Brazil* and Light.

Cost of retirement plans

Retirement plans exist covering most employees in Canada.

Costs charged against income in the year include amounts for current and past service.

Based on the latest actuarial valuations of the various retirement plans, no material unfunded obligation for past service costs exists.

Amortization of debt discount and issue expenses

These expenses are being amortized over the life of the related debt.

Natural resource operations

Oil and gas properties—

The full cost method of accounting is used whereby all costs associated with exploration for and development of oil and gas reserves are capitalized and charged against income as set out below.

These costs include land acquisition, geological and geophysical expenditures, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, and overhead expenses for exploration and development activities. Costs are accumulated in the following centres:

- North America
- Arctic
- Foreign

Proceeds from the disposal of properties are credited against costs.

Amortization of costs in the North America cost centre is on the composite unit of production method whereby depletion is provided each year in the proportion that the year's production of oil and gas bears to proven reserves.

Expenditures incurred in the Arctic and in Foreign cost centres are being deferred pending the results of exploration still in progress. These costs will be depleted, by cost centre, on the composite unit of production method, or written off to income if exploration activities prove unsuccessful and the cost centre is abandoned.

Oil and gas plant and equipment—

These costs are depreciated on the unit of production basis.

Mineral exploration costs—

These costs (including acquisition, exploration and development expenditures and

related overhead) pertaining to individual mineral prospects (excluding hydrocarbons) are charged to income as incurred until an economic orebody is defined.

Mine plant and equipment—
These costs including amounts capitalized under "mineral exploration costs" above are amortized on the unit of production basis.

Coal and other properties—
Until commercial production begins, such properties are carried at cost, less any amounts written off in recognition of a permanent decline in value.

Mineral concentrate inventories—
These inventories are carried at estimated realizable value.

Electric utility operations

Revenue recognition—
Electric rates are established annually, based on forecasts of costs, sales volume and return on assets. These estimates are filed with the regulatory authority, as part of the application for rate revision. New rates come into force after review of the application and approval or modification by the regulatory authority.

Revenue is recognized when customers are billed.

Depreciation—
Depreciation is provided on the cost of depreciable electric utility plant at an annual rate of 2½% on a straight-line basis.

Allowance for interest on funds used in construction—
Interest is charged to construction work in progress and credited to income at a rate approximating the current cost of borrowed funds.

Retirements—
Profits or losses on normal disposals of utility property, plant and equipment are credited or charged to accumulated depreciation.

Other operations

Depreciation—
Depreciation of equipment and other physical property and amortization of leasehold improvements are provided at various rates calculated to extinguish the related book values over their estimated useful lives.

Investments on the equity method

Life insurance—
The accounting policies of London Life Insurance Company (London Life) are those prescribed or permitted by the Department of Insurance of Canada and incorporate certain changes enacted in the applicable legislation in 1978. The accounting principles employed differ from those applicable to commercial and industrial organizations as follows:

- Income or loss from disposals of bonds and debentures is treated as an adjustment to the portfolio yield and amortized over the lesser of the term of the security or 20 years.
- Realized and unrealized gains and losses on stocks are deferred and amortized to income on the basis of a legislated formula.
- Income taxes are determined on the taxes payable basis.

Income on the equity method is based on earnings per share as now reported by London Life.

Statement of Consolidated Income

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Investment and industrial operations:		
Canada (per statement attached)	$ 11.7	$ 6.7
Brazil (per statement attached)	6.1	9.6
Interest from Light	4.9	5.3
	22.7	21.6
Discontinued operations:		
Equity in income of Light excluding interest shown above (note 1)	112.7	130.1
Income before general corporate expenses	135.4	151.7
General corporate expenses	(7.1)	(6.5)
Income before extraordinary items	128.3	145.2
Extraordinary items:		
Loss on disposal of Light (note 1)	(453.6)	
Other-gains		6.0
	(453.6)	6.0
Net income (loss) for year	$(325.3)	$151.2
Average number (in millions) of ordinary shares (Classes A, B and C) outstanding for year (note 10)	26.1	26.0
Earnings per ordinary share (after preferred dividends):		
Income before extraordinary items	$ 4.82	$ 5.47
Extraordinary items	(17.41)	.23
Net income (loss) for year	$(12.59)	$ 5.70

Statement of Consolidated Dollar Income

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Investment and industrial operations:		
Canada (per statement attached)	$ 11.7	$ 6.7
Brazil—		
Remittances:		
Dividends, net of withholding taxes of $1.4 (1977—$1.3)	4.3	3.4
Interest, net of withholding taxes of $0.1 (1977—$0.3)	7.7	8.5
	12.0	11.9
Total investment and industrial operations	23.7	18.6
Discontinued operations:		
Remittances from Light—		
Dividends, net of withholding taxes of $9.0 (1977—$7.9)	27.0	23.8
Dollar income before general corporate expenses	50.7	42.4
General corporate expenses	(7.1)	(6.5)
Dollar income before extraordinary gains	43.6	35.9
Extraordinary gains		4.5
Dollar income for year	$ 43.6	$ 40.4
Per ordinary share (after preferred dividends):		
Dollar income before extraordinary gains	$ 1.57	$ 1.27
Extraordinary gains		.17
Dollar income for year	$ 1.57	$ 1.44

(See accompanying summary of accounting policies and notes)

Statement of Consolidated Investment and Industrial Operations Income—Canada

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Income (loss) by segment before unallocated expenses:		
Oil and gas	$ 13.9	$ 10.7
Mining	4.3	0.8
Mineral exploration	(0.9)	(1.8)
Consumer goods and services	0.5	4.5
Electric utility	9.9	5.4
Financial services	1.8	0.7
Other interest income—net	4.4	2.4
	33.9	22.7
Expenses not allocated by segment:		
Interest on long-term debt	(11.0)	(11.4)
Minority interest	(1.7)	(0.7)
Income taxes—		
Current	(0.8)	(0.3)
Deferred	(8.7)	(3.6)
Total income	$ 11.7	$ 6.7

	1978	1977
Subsidiaries' gross operating revenue by segment is as follows:		
Oil and gas	$ 20.0	$ 16.7
Mining	17.2	14.7
Consumer goods and services	4.4	9.2
Electric utility	31.2	29.2
Financial services	2.6	2.4
	$ 75.4	$ 72.2
Income (loss) before unallocated expenses has been determined after the following:		
Equity in net income of long-term investments	$ 5.4	$ 6.7
Expenses—		
Interest	0.1	0.4
Depreciation, depletion and amortization	6.9	7.0
Foreign exchange adjustments	2.9	2.0

(See accompanying summary of accounting policies and notes)

Statement of Consolidated Investment and Industrial Operations Income—Brazil

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Income (loss) by segment before unallocated expenses:		
Financial services	$ 7.8	$ 9.3
Consumer and industrial goods and services	(2.4)	6.5
Real estate development	0.3	1.9
Mining	3.5	0.8
Mineral exploration	(3.3)	(5.2)
Interest under telephone sale agreement	2.6	2.9
Other interest income—net	11.9	8.5
	20.4	24.7
Expenses not allocated by segment:		
General and administrative	(7.0)	(7.7)
Income and withholding taxes—		
Current	(7.3)	(7.5)
Deferred		0.1
Total income	$ 6.1	$ 9.6

	1978	1977
Subsidiaries' gross operating revenue by segment is as follows:		
Financial services	$ 86.4	$ 75.1
Real estate development	4.4	27.4
Mining	7.8	4.4
	$ 98.6	$106.9
Income (loss) before unallocated expenses has been determined after the following:		
Equity in net income of long-term investments	$ (3.9)	$ 5.1
Expenses—		
Interest	52.1	29.0
Depreciation, depletion and amortization	1.7	1.9
Minority interest	0.8	1.0
Foreign exchange adjustments	38.8	26.8

(See accompanying summary of accounting policies and notes)

Statement of Changes in Consolidated Financial Position

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Funds provided:		
Continuing operations	$ 36.6	$ 23.0
Proceeds due on sale of Light	377.7	
Dividends from Light—		
Remitted	27.0	23.8
Non-remittable	38.3	33.7
Reduction in deposit receipt		29.7
Reduction in long-term receivable	11.4	
Proceeds on sale of investments	1.6	9.0
Loan repayments from Light and *Brascan Brazil*	6.8	6.8
Current portion of sale price of telephone utilities	4.9	4.7
	504.3	130.7
Funds used:		
Dividends	31.2	30.8
Redemption of subsidiary's preferred shares		29.3
Investment in and advances to *Brascan Brazil*—		
Non-remittable dividends from Light	38.3	33.7
Other	3.1	3.2
Investments in Canadian companies	8.0	13.1
Expenditures on property, plant and equipment	16.2	11.8
Reduction in long-term debt	6.9	5.1
Miscellaneous	7.5	(2.4)
	111.2	124.6
Increase in net current assets	393.1	6.1
Net current assets at beginning of year	58.8	52.7
Net current assets at end of year	$ 451.9	$ 58.8

Statement of Consolidated Retained Earnings

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Balance at beginning of year	$1,066.1	$ 945.7
Net income (loss) for year	(325.3)	151.2
	740.8	1,096.9
Dividends (note 11)	31.2	30.8
Balance at end of year	$ 709.6	$1,066.1

(See accompanying summary of accounting policies and notes)

Consolidated Balance Sheet

December 31 *(Expressed in millions of United States dollars)*	1978	1977 (notes 1 and 3)
Assets		
Current:		
Cash	$ 6.1	$ 21.5
Short-term investments at cost, which approximates market	77.1	33.5
Proceeds due on sale of Light (note 1)	377.7	
Accounts receivable (notes 1 and 7)	28.6	29.8
Mineral inventories	6.4	6.2
	495.9	91.0
Investments:		
Canada—		
Shares of Canadian companies on the equity method (note 2)	75.5	73.0
Other investments at cost less amounts written off	11.3	6.8
	86.8	79.8
Brazil (note 5)—		
Shares of Light on the equity method (note 1)		781.4
Debentures of and loans to Light (note 1)	68.4	74.4
Investment in *Brascan Brazil* (note 4)	251.5	211.8
Government-guaranteed obligations (note 7)	38.4	43.2
	358.3	1,110.8
Property, plant and equipment:		
Electric utility plant	91.3	89.6
Oil and gas properties and equipment (note 8)	86.4	77.0
Mine plant and equipment	15.4	15.5
Coal properties and other	7.2	7.1
Total, at cost	200.3	189.2
Less accumulated depreciation, depletion and amortization	(57.6)	(51.1)
	142.7	138.1
Other:		
Long-term receivables	6.2	18.2
Sundry, including debt discount and issue expenses (1978—$1.7; 1977—$2.1)	12.6	10.9
	18.8	29.1
	$1,102.5	$1,448.8

(See accompanying summary of accounting policies and notes)

December 31 *(Expressed in millions of United States dollars)*	1978	1977 (notes 1 and 3)
Liabilities and Shareholders' Equity		
Current:		
Bank indebtedness	$ 1.0	$ 4.1
Accounts payable and accrued charges	19.2	8.7
Dividends and interest due and accrued	13.2	13.3
Current portion of long-term debt (note 9)	7.9	6.1
Income and other taxes payable	2.7	
	44.0	32.2
Other:		
Long-term debt (note 9)	113.7	120.6
Bank and other indebtedness	1.5	2.0
Minority interest	14.4	12.3
Deferred income taxes	7.4	4.0
	137.0	138.9
Shareholders' equity:		
Share capital (note 10)	236.5	236.2
Retained earnings	709.6	1,066.1
	946.1	1,302.3
Less shares held by a subsidiary, at cost	24.6	24.6
	921.5	1,277.7
	$1,102.5	$1,448.8

On behalf of the Board: J. H. Moore, L. A. Allen — Directors

(See accompanying summary of accounting policies and notes)

Notes to Consolidated Financial Statements

1. Discontinued operations—Light

Disposal

On December 28, 1978 an offer to purchase the shares of Light for $380.0 million was received and accepted. For accounting purposes Light was deemed to have been sold as of December 31, 1978. The transaction closed on January 12, 1979.

The proceeds due on the sale, net of $56.4 million Brazilian taxes, are equivalent to a present value of $377.7 million using a 5.5% after-tax rate of interest. The resulting loss on disposal of $453.6 million after recording the Company's share of income for the year, and after expenses incurred on disposal, has been charged to income as an extraordinary item. While the loss was $453.6 million the proceeds exceed by $168 million the Company's registered capital in Light.

Debentures and loan retained (fully registered under Brazilian exchange control legislation)

	Millions	
	1978	1977
Series B debentures	$57.9	$62.9
Loan	16.5	17.5
	74.4	80.4
Amounts due within one year (included in accounts receivable)	6.0	6.0
	$68.4	$74.4

The debentures bear interest at 8% per annum and are repayable annually at the rate of $5.0 million until 1990.

The loan bears interest at 8¼% per annum and is repayable on the same terms as the 8¼% bonds of Brascan International B.V.

Rate base

The rate of return earned on the rate base, as described in previous Annual Reports, was approximately 10% in 1978 (12% in 1977).

2. Investments on the equity method

	Millions	
	1978	1977
John Labatt	$60.5	$59.4
London Life	15.0	13.6
	$75.5	$73.0

3. Accounting for Brazilian subsidiaries

In prior years the financial position and operating results of all Brazilian subsidiaries have been reported on a consolidated basis. Owing to the dominance of these subsidiaries in the overall operations, this presentation of the Company's activities and financial position was the most relevant.

In view of the sale of Light (as described in note 1) with the resulting diminution of Brazilian operations as a proportion of overall operations, and the continuing restrictions on the transfer of funds from Brazil, it is now appropriate to account for *Brascan Brazil* on the cost method effective December 31, 1978, the cost being the equity carrying value at that date. This equity value is included in the balance sheet as "Investment in *Brascan Brazil*". For comparative purposes, the presentation of these investments in the balance sheet has been restated on the equity basis as at December 31, 1977.

Since this change in circumstances was not effective until December 31, 1978, the statement of consolidated income includes the operating results of *Brascan Brazil* for 1978 under "Investment and Industrial Operations—Brazil" on the same basis as in prior years. In future, income from these investments will be recognized as received by way of interest and dividends.

4. Investment in *Brascan Brazil*

Set out below is the investment in the holding companies referred to in note 1 to the combined financial statements included on pages 32 to 37 of this report.

	Millions	
	1978	1977
Shares	$200.2	$196.3
Retained earnings	47.3	50.1
	247.5	246.4
Advances—net	1.3	(36.7)
Other	2.7	2.1
	4.0	(34.6)
	$251.5	$211.8

The distribution of any earnings by way of cash dividends is restricted as described in note 5. Approximately $10.5 million of retained earnings is not eligible for distribution.

5. Exchange regulations

Remittances from Brazil are subject to the exchange regulations of that country.

Interest and related sinking fund payments from Light together with payments under the telephone sale agreement, are fully remittable in dollars.

The following debt instruments are registered under Brazilian exchange control legislation:

	Millions	
	1978	1977
Light		
8% Series B debentures	$ 57.9	$ 62.9
8¼% loan	16.5	17.5
Government-guaranteed obligations	43.2	46.7
U.S. dollar loan	1.1	1.9
	$118.7	$129.0

Dividend payments by *Brascan Brazil* are partially remittable in dollars with the balance available in cruzeiros in Brazil. Within the limits of their capitalization and earnings in each year, Brazilian subsidiaries declare dividends sufficient to realize maximum dollar remittances under the capital registration for investments therein, without attracting supplementary withholding taxes (note 6). Net subsidiary income above this level is generally capitalized by stock dividends in order to increase, to the extent permitted by Brazilian foreign exchange legislation, the registered capital base upon which future dividends may be remitted.

Based on the registration certificates on hand at December 31, 1978 the registered capital (expressed in equivalent U.S. dollars) for share investments in Brazil was approximately $55.9 million (1977—$52.8 million).

6. Withholding taxes—Brazil

Dividend payments from Brazil are subject to withholding tax at a rate of 25%. Should net dollar dividend payments (after withholding tax) exceed 12% of the registered dollar capital, averaged over the preceding three years, additional taxes would be payable on a graduated scale from 40% to 60% on the net excess.

7. Government-guaranteed obligations

These obligations, resulting from the sale of the telephone utilities in 1966, are guaranteed by the Government of Brazil, bear interest at 6% per annum, and are receivable in equal quarterly instalments from January 1, 1979 to January 1, 1986. The amounts due within one year of $4.8 million (1977—$3.5 million) are included in accounts receivable.

There is an obligation to reinvest 75% of the principal in other enterprises in Brazil over the term of the agreement.

Under the terms of the Canadian dollar bank loan of $9.2 million (see note 9), these holdings may not be sold or otherwise encumbered without the prior written consent of the lenders.

8. Oil and gas properties and equipment

	Millions		
	December 31, 1978		
	Cost	Accumulated Depletion	Net
Properties			
North America	$68.4	$10.8	$57.6
Arctic	8.6		8.6
	77.0	10.8	66.2
Plant and equipment	9.4	1.4	8.0
	$86.4	$12.2	$74.2

	December 31, 1977		
	Cost	Accumulated Depletion	Net
Properties			
North America	$60.4	$ 8.1	$52.3
Arctic	8.6		8.6
	69.0	8.1	60.9
Plant and equipment	8.0	1.2	6.8
	$77.0	$ 9.3	$67.7

At December 31, 1978 proven reserves are calculated by the Company to be 275.6 (1977—275.5) billion cubic feet of sales gas and 3.2 (1977—2.7) million barrels of oil.

9. Long-term debt

	Millions	
	1978	1977
Bank loan at a rate of 1¼% above the minimum bank lending rate in Canada, due semi-annually 1979 and 1980, in Can. dollars	$ 9.2	$ 13.3
Brascan International B.V.:		
8¼% bonds due annually 1979 to 1987	16.5	17.5
8.3% loan from a consortium of Japanese banks due annually 1982 to 1988	30.0	30.0
8½% bonds due annually 1979 to 1988, in Deutsche marks (equivalent to $55.1 at the year-end rate)	35.9	35.9
Brascan International Capital Corporation:		
9¾% notes due 1979 to 1982	30.0	30.0
	121.6	126.7
Less amounts due within one year	(7.9)	(6.1)
	$113.7	$120.6

Maturities and sinking fund requirements during the next five years are as follows:

1979—$ 7.9	1981—$ 5.6	1983—$10.1
1980— 10.7	1982— 37.1	

10. Share capital

		Millions 1978	Millions 1977
Authorized:			
924	6% cumulative convertible preference shares of a par value of Can. $100.00 each (1977—929)		
7,997,900	preferred shares issuable in series (1977—7,997,900)		
105,000,000	ordinary shares (Classes A, B and C) of no par value		
Issued and outstanding:			
924	6% preference shares (1977—929)	$ .1	$ .1
1,397,900	8½% preferred shares Series A of a par value of Can. $25.00 each (1977—1,397,900)	35.9	35.9
28,354,838*	ordinary shares— Classes A, B and C (1977—28,333,285*)	200.5	200.2
		$236.5	$236.2

*of which 2,293,522 are held by a subsidiary.

Preferred

The preferred share capital has an authorized aggregate par value not exceeding Can. $200.0 million, such shares to be issued in one or more series as determined by the directors. The preferred shares of each series rank equally with the preferred shares of every other series, and are entitled to preference over the ordinary shares on the declaration of dividends and on distribution on winding up.

The first series of preferred shares consists of 1,397,900 (1977—1,397,900) 8½% cumulative redeemable Series A preferred shares, with a par value of Can. $25.00 each designated as "8½% Tax-deferred Preferred shares Series A", and the second series of preferred shares consists of 1,400,000 (1977—1,400,000) 10% cumulative redeemable preferred shares, Series B, with a par value of Can. $25.00 each. Each Series A share is convertible after April 5, 1988, into one Series B preferred share. The dividends on the Series A shares will continue to be treated as tax-deferred income in the hands of Canadian shareholders.

The preferred shares are subject to a maximum non-cumulative quarterly purchase obligation totalling 4,667 shares per month. After July 15, 1983, the Company may redeem the 8½% Series A preferred shares at a premium of Can. $1.00 per share reducing by Can. $0.25 annually to 1987 and par thereafter.

Ordinary

	December 31, 1978 Shares Authorized	December 31, 1978 Shares Issued
Class A convertible	50,000,000	23,834,455
Class B convertible	50,000,000	1,699,218
Class C convertible (non-voting)	5,000,000	2,821,165
		28,354,838
Less Class A convertible shares held by a subsidiary (non-voting)		2,293,522
		26,061,316

The authorized and issued ordinary shares are without nominal or par value.

The total Class A, B and C shares issued and outstanding at any one time may not exceed 50,000,000 shares.

The Class A, B and C ordinary shares rank equally in all respects except for the following:

- During 1978, dividends on Class B shares were paid out of certain defined portions of retained earnings resulting in a different Canadian tax treatment when received by shareholders. Amendments to the Income Tax Act (Canada) have eliminated this difference commencing in 1979.

- Class C shares are non-voting unless the Company has failed to pay any dividend on the shares for two consecutive years.

During 1978, 233,546 Class C ordinary shares were issued to replace Class A shares held in bearer form. In addition the following ordinary share conversions took place:

	1978	1977
Class B into (from) Class A	209,912	(257,565)
Class C into Class A	57,456	34,399
Class C into Class B		22,964

Under the Company's share purchase plans, 21,520 Class A ordinary shares were issued at \$14.40 per share during 1978 (1977—18,000 shares) to employees, financed by interest-bearing loans from the Company. At December 31, 1978 the amount of loans under these plans, included in sundry assets, was \$1.3 million (1977—\$1.4 million) including \$0.6 million (1977—\$0.6 million) to certain directors and officers.

Share constraints

The Company has been declared a constrained share company under the Canada Corporations Act. This restricts the issue and transfer of the Company's voting shares to assure that:

- not more than 49% of the outstanding voting shares are controlled by non-Canadians as a group, and
- not more than 10% of such shares are controlled by any one non-Canadian or by an associated group of non-Canadians.

11. Dividends

Cash dividends, together with the related tax on undistributed income, consisted of the following:

	Millions	
	1978	1977
Preferred:		
6% preference shares Can. \$6.00 per share		
Preferred Series A Can. \$2.125 per share	\$ 2.6	\$ 2.8
Total preferred	2.6	2.8
Ordinary:		
Class A and Class C		
U.S. \$1.10 per share	29.1	
U.S. \$1.08 per share		28.6
Class B		
U.S. \$1.10 per share	2.0	
U.S. \$1.0425 per share		1.8
Related tax paid on undistributed income		
U.S. \$0.0375 per share		0.1
	31.1	30.5
Paid to a subsidiary		
U.S. \$1.10 per share	(2.5)	
U.S. \$1.08 per share		(2.5)
Total ordinary	28.6	28.0
Total dividends	\$31.2	\$30.8

12. Income taxes

Non-capital losses for Canadian tax purposes of $16.0 million (1977—$13.9 million) are available to reduce taxable income that may arise in subsequent years up to 1983.

In addition, net capital losses for Canadian tax purposes amounting to $7.0 million (1977—$7.0 million) are available to reduce taxable capital gains that may arise in subsequent years.

13. Commitments and contingencies

Great Lakes Power Corporation Limited is proceeding with the construction of a new hydro-electric generating plant at an estimated cost of Can. $95.0 million. It is expected that a substantial portion of the funds required for this project will be raised through conventional borrowing.

Other commitments outstanding for construction, equipment etc. at December 31, 1978 were approximately $1.2 million.

Contingent liabilities under guarantees and other matters at December 31, 1978 were $9.1 million.

Annual rental commitments under various long-term lease agreements total approximately $3.9 million.

In January two legal proceedings were instituted in Brasilia against the purchase of Brascan's holding in Light by Eletrobrás. These proceedings were commenced under a law permitting private citizens to dispute Government actions alleged to be against the national interest.

Court action is proceeding on one of these and although no writ has been served on Brascan, the co-defendant in the suit, Eletrobrás, has been formally served.

Brascan is advised that the grounds on which the proceedings are based are without merit.

14. Comparative figures

Certain of the prior year's accounts have been reclassified to conform with the 1978 presentation.

15. Remuneration of directors and officers

	Directors		Officers		Number of officers who were also directors
Paid by:	Number	Thousands	Number	Thousands	
The Company	26	$126	19	$1,171	7
One subsidiary			2	77	2
A second subsidiary			1	100	1
A third subsidiary	1	22			

Brascan Brazil
Combined Financial Statements

Brascan Brazil
Statement of Combined Income and Retained Earnings (note 3)

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Income (loss) by segment before unallocated expenses:		
Financial services	$ 7.8	$ 9.3
Consumer and industrial goods and services	(2.4)	6.5
Real estate development	0.1	1.6
Mining	3.5	0.8
Mineral exploration	(3.3)	(5.2)
Other interest income—net	11.9	8.6
	17.6	21.6
Expenses not allocated by segment:		
General and administrative	(7.0)	(7.7)
Income and withholding taxes—		
Current	(5.7)	(7.0)
Deferred		0.1
Income before extraordinary gains	4.9	7.0
Extraordinary gains		1.5
Net income for year	4.9	8.5
Retained earnings at beginning of year	51.6	48.7
	56.5	57.2
Dividends to Brascan Limited:		
Cash—		
Remitted	5.8	4.8
Unremitted	0.9	0.8
	6.7	5.6
Stock	1.1	
	7.8	5.6
Retained earnings at end of year	$48.7	$51.6

(See accompanying summary of accounting policies and notes)

Brascan Brazil
Statement of Changes in Combined Financial Position

For the Years Ended December 31 *(Expressed in millions of United States dollars)*	1978	1977
Funds provided:		
Operations	$ 11.9	$ 5.5
Advances from Brascan Limited	50.7	34.4
Repayment of loan by Light		25.1
Bank time deposits and other borrowings	[illegible]	31.9
Reduction in long-term receivable	[illegible]	3.2
Shares issued to Brascan Limited	2.2	2.5
Miscellaneous	[illegible]	0.3
	129.7	102.9
Funds used:		
Net advances made under loans, long-term finance and leasing contracts	[illegible]	25.3
Real estate development	16.6	12.8
Dividends	6.7	5.6
Central bank deposits	29.7	5.9
Investment in corporate joint ventures	26.1	5.5
Expenditures on property, plant and equipment	[illegible]	3.0
Retirement of debt due to Brascan Limited	0.8	0.8
	127.9	58.9
Increase in current assets	1.8	44.0
Net current assets at beginning of year	105.1	61.1
Net current assets at end of year	$106.9	$105.1

(See accompanying summary of accounting policies and notes)

Brascan Brazil
Combined Balance Sheet

December 31 *(Expressed in millions of United States dollars)*	1978	1977
Assets		
Current:		
Cash	$ 3.0	$ 4.1
Short-term investments	21.2	38.7
Interest-bearing secured loans (note 2)	161.3	158.3
Finance and leasing contracts receivable	28.8	19.9
Accounts receivable and other	16.9	10.8
	231.2	231.8
Investments:		
Corporate joint ventures on the equity method (note 2)	72.8	57.3
Shares and debentures at cost	7.3	6.0
	80.1	63.3
Real estate:		
Income producing properties		
Cost	18.7	18.5
Less accumulated depreciation	(3.0)	(2.3)
	15.7	16.2
Property held for development or resale	26.0	1.2
	41.7	17.4
Other:		
Central bank deposits	26.7	5.9
Interest-bearing secured loans (note 2)	100.6	52.6
Long-term finance and leasing contracts receivable	19.5	11.2
Other long-term receivables	17.4	29.2
Sundry	3.0	3.0
	167.2	101.9
Property, plant and equipment:		
Mine property, plant and equipment	5.7	2.1
Land and buildings	4.7	4.0
Other	3.7	3.8
	14.1	9.9
Less accumulated depreciation	(2.4)	(2.4)
	11.7	7.5
	$531.9	$421.9

(See accompanying summary of accounting policies and notes)

December 31 (Expressed in millions of United States dollars)	1978	1977
Liabilities and Shareholder's Equity		
Current:		
Bank indebtedness	$ 2.3	$ 1.0
Accounts payable and accrued charges	9.1	6.1
Bank time deposits	84.6	93.8
Bills of exchange payable	18.0	18.8
Current portion of long-term debt (note 6)	4.8	2.7
Income and other taxes payable	5.5	4.3
	124.3	126.7
Other:		
Long-term debt (note 6)	24.6	22.0
Bank time deposits	120.0	52.9
Minority interest	7.8	7.5
Other	5.0	1.6
	157.4	84.0
Due to parent, Brascan Limited:		
U.S. dollar loan	0.4	1.1
Non interest-bearing cruzeiro advances	0.9	(37.8)
	1.3	(36.7)
Shareholder's equity (note 3):		
Share capital	200.2	196.3
Retained earnings	48.7	51.6
	248.9	247.9
	$531.9	$421.9

(See accompanying summary of accounting policies and notes)

Notes to *Brascan Brazil* Combined Financial Statements

1. Summary of accounting policies

Basis of combination

These combined financial statements include the accounts of Brascan Limited's wholly-owned holding companies incorporated under the laws of Brazil:

- Empresa Tecnica de Organização e Participações S.A. (TOP)
- Organização e Empreendimentos Gerais S.A. (OEG)
- Brascan Administração e Investimentos Ltda. (BAI)

These financial statements also include the accounts of all the majority-owned subsidiaries of the above holding companies.

The principal operating subsidiaries are:

- Banco Brascan de Investimento S.A. and its subsidiaries (Financial services)
- Promisa-Mineração e Prospecções Minerais S.A. (Mineral exploration)
- Companhia de Mineração Jacundá (Alluvial tin mining)
- Gávea Hoteleria e Turismo S.A. (Hotel)
- Brascan Imobiliária S.A. (Real estate development)

All significant intercompany transactions have been eliminated including the original investment in and subsequent sale in 1978 (at net book value) to the parent company of an approximate 8% equity interest in Light.

These combined financial statements should be read in conjunction with the consolidated financial statements of the parent company, Brascan Limited.

Leasing operations

The finance method is used whereby income is recognized over the terms of the leasing contracts on a declining basis in proportion to the related outstanding principal amounts.

Real estate operations

Income recognition

Income from condominium construction is recognized on the percentage of completion method based on the ratio of construction costs incurred to the current estimate of total project construction costs.

Income from retail land development is recognized upon the sale of individual lots, with estimated costs of completion allocated on the basis of anticipated selling value.

Asset valuation

Income producing properties are carried at cost.

Properties held for or under development are carried at the lower of cost and net realizable value.

Capitalization of costs

Net carrying charges including interest are capitalized on properties held for development or under development until sold.

2. Investments in corporate joint ventures

	Millions	
	1978	1977
Swift-Armour	$11.2	$14.6
Skol-Caracú	30.8	16.4
Fabríca Nacional de Vagões	14.0	12.6
Embrasca	10.3	8.2
Laranjeiras	5.5	5.5
Brinks	1.0	
	$72.8	$57.3

In addition, there are loans to these joint ventures amounting to $7.1 million (1977—$9.3 million) which are included in interest-bearing secured loans.

Guarantees of $3.5 million (1977—$16.2 million) have been provided for joint venture indebtedness with third parties.

3. Shareholder's equity

Share capital

	Authorized, issued and outstanding share capital			
	Millions of Shares (at Cr$1.00 per share)		Millions	
	1978	1977	1978	1977
TOP				
Ordinary	217.1	167.9	$ 27.7	$ 24.9
Preference	23.2	23.2	4.2	4.2
	240.3	191.1	31.9	29.1
OEG*				
Ordinary	288.4	104.9	22.4	21.3
BAI				
Common	987.7	987.7	145.9	145.9
	1,516.4	1,283.7	$200.2	$196.3

*8% Preference shares held by BAI have been eliminated.

Based on the registration certificates on hand at December 31, 1978 the registered capital (expressed in equivalent U.S. dollars) for share investments in Brazil was approximately $55.9 million (1977—$52.8 million).

Retained earnings

Under Brazilian law, companies incorporated as "Sociedades Anonimas" must appropriate 5% of annual net income, as defined, as a legal reserve. Normally distributable in cash only on dissolution, legal reserves may be applied to increase capital or to reduce accumulated deficits. The appropriations cease to be obligatory when the legal reserve reaches 20% of capital. At December 31 these reserves amounted to $3.7 million (1977—$3.2 million).

4. Commitments and contingencies

Total commitments outstanding under security repurchase agreements and for construction, equipment etc. at December 31, 1978 were approximately $69 million.

Brascan Brazil is contingently liable as guarantor on loans and other contracts of approximately $40 million.

Brascan Brazil is also contingently liable as guarantor of commissions totalling approximately $40 million on loans of Light.

Annual rental commitments under various long-term lease agreements total approximately $0.6 million.

5. Income taxes

Non-capital losses for Brazilian tax purposes amounting to $5.3 million (1977—$4.4 million) are available to reduce taxable income that may arise in subsequent years up to 1981.

6. Long-term debt

	Millions	
	1978	1977
U.S. dollar bank loans at rates from 1.25% to 2.25% over London interbank rate due semi-annually 1979 to 1984	$16.0	$ 1.9
Cruzeiro construction loan from Caixa Economica Federal (Federal Savings Bank) at 12% plus monetary correction due 1979 to 1982	9.2	18.0
Cruzeiro bank loans at rates from 8.8% to 11% plus monetary correction due 1979 to 1982	4.2	4.8
	29.4	24.7
Less amounts due within one year	(4.8)	(2.7)
	$24.6	$22.0

Maturities and sinking fund requirements during the next five years are:

1979—$4.8	1981—$8.4	1983—$4.7
1980— 4.8	1982— 6.7	

Auditors' Report

To the Shareholders of Brascan Limited:

We have examined the consolidated balance sheet of Brascan Limited as at December 31, 1978, and the statements of consolidated income, dollar income, investment and industrial operations income, retained earnings and changes in consolidated financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in Canada applied on a basis consistent with that of the preceding year, restated as explained in note 3.

Toronto, Canada
March 1, 1979

Clarkson, Gordon & Co.
Chartered Accountants

The following letter was sent to shareholders on February 20, 1979.

To the Shareholders:

Having completed the sale of all of Brascan's shares of Light-Serviços de Eletricidade S.A. (Light) to Centrais Elétricas Brasileiras S.A., (Eletrobrás), the national power company owned by the Government of Brazil, we are now able to devote our full attention to the deployment of the proceeds and the future course of your Company. Later in this letter the key considerations involved in our planning decisions will be discussed. But we wish first to report to you in some detail on the transaction in Brazil.

A long history of discussion and adaptation to changing conditions in Brazil has been concluded by this transaction. Principal events in this history have been outlined in our annual and quarterly reports to shareholders and in the reports on proceedings at shareholder meetings. At the annual shareholders' meeting in May 1978, Light's problems were reviewed with particular emphasis on service and financing requirements, cash flow and earnings. At the 1978 Annual Meeting the following statement was made:

"If the Government of Brazil wishes to acquire Light, we will co-operate."

The Brazilian Government's offer to purchase Light unconditionally required that, if it were accepted, the transaction be completed by January 12, 1979. This did not allow sufficient time to submit the proposed sale for consideration at a meeting of shareholders although the Company had indicated its wish to have such a meeting.

*All figures are in U.S. Dollars except where otherwise indicated.

Terms of Sale

The price and terms of payment of the transaction were as follows:

	U.S. Dollars	Approximate Can.$ Equivalent
	Millions	
Selling Price.	$380*	$447
Paid on closing on January 12, 1979	210	247
Promissory note due April 12, 1979	170	200
	380	447
Equivalent per ordinary share.	$ 14.58	$ 17.20

The promissory note for $170 million was issued by Eletrobrás and guaranteed by the government-controlled Banco do Brasil S.A. It is payable in New York on April 12, 1979.

The net proceeds of $380 million (after withholding tax, the payment of which has been assumed by Eletrobrás) are not subject to further tax in Canada or Brazil. There is no requirement to invest the proceeds in Brazil.

The selling price is approximately $460 million below Brascan's book value of its share investment in Light. However, on the per share basis shown above, this price compares favourably with the range of prices at which Brascan's ordinary shares have traded over the past five years.

Given the terms of the sale, the declining return on investment, and Light's overall position, as more fully discussed below, the Board of Directors and Management considered the sale to be in the best interests of Brascan and its shareholders.

Rationale for the Transaction

Light provides electricity to over 20 million people in the Rio de Janeiro—São Paulo axis in Brazil. This is the most industrialized area of Brazil and has had dramatic economic growth over the past

ten years. Energy sales by Light during this period have increased at a compound rate approaching 10% per annum. While Brazil's economic growth has moderated in the past 3 years, energy substitution programs have sustained the rapid increase.

This growth and increased demand have necessitated heavy and increasing capital expenditures by Light to fulfil its service obligations. During the 5-year period 1974–1978, capital expenditures totalled $1.3 billion. This program was financed primarily with borrowed funds. While the financing and execution of this program represented a significant achievement by Light, we have been concerned about Light's ability as a private company to continue the capital program. This program is essential to enable Light to satisfy its service obligations.

The regulatory system of service at cost, as described in Brascan's annual reports, was introduced in the mid-1960's. This system provided a sound basis for planning. However, with the acceleration of inflation in Brazil since the "oil crisis" of 1973, other national priorities have emerged. These priorities have been contributing factors to changes in the administration of the regulatory system which apply to all electric utilities in Brazil. The principal result of these changes for Light has been the reduction in income and in the internal generation of funds for the capital program. In 1978 all internally generated funds were required for servicing debt and equity capital, leaving no such funds available for the construction program.

Light has systematically sought to make the Brazilian Government fully aware of its position. The results of such discussions have been reported in Brascan's annual and quarterly reports. The Brazilian Government has supported Light by guaranteeing external debt and by providing rates which, while decreasing cash flow, have allowed Light to continue, but not to increase, its dividend rate.

With the continual reduction in internally generated funds, Light has become almost completely dependent on external sources of capital. There were three potential sources: domestic capital markets, Government and external capital markets. Light was not able to raise any significant volume of equity or debt, at reasonable cost, in local markets. As a private, foreign-owned utility, Light did not qualify for funds available from Government agencies. In 1978, taxes and similar charges imposed on Light's customers as part of their cost of electricity, totalled approximately $500 million. Such amounts were paid to Brazilian Federal agencies and are available on favourable terms to other companies in the electric sector.

Accordingly, Light's principal sources of capital funds have been syndicated bank loans, arranged by major international banks, and public bond issues in the Eurobond markets. The interest rate on syndicated bank loans is changed periodically, usually every 6 months. The interest rates established recently would be approximately 4 percentage points greater than the estimated 10% return which Light earned in 1978 on its rate base.

In spite of recent improvements, the average life of such borrowings has been approximately 5 years, which is inconsistent with the expected 25-30 year life of Light's utility plant. Consequently, an ever increasing volume of refunding obligations is building up as principal amounts become due on the borrowings negotiated in recent years. As at December 31, 1978, approximately $600 million or 57% of Light's long-term debt matures in the next five years. On the basis of depreciation charges in 1978, these maturities would exceed available depreciation by over $200 million during that period. The resultant refinancing problem is further compounded by the borrowing requirements for Light's future extensive capital program.

The support of the Government of Brazil in guaranteeing loans negotiated by Light was an important factor in concluding loans to finance the capital program. However, Light was not able to establish formally the method of repaying any amounts which might be paid pursuant to such guarantees.

During the period 1974 to 1978 Brascan's rate of return, on average total investment in Light, fell from 19.7% to an estimated 13.5% as shown in the following table:

	Millions			
	Average	Rate of Return		
Year	Total Investment	U.S. Dollar Component	Cruzeiro Component	Total
1974...	$608	4.5%	15.2%	19.7%
1975...	692	4.3	12.8	17.1
1976...	774	3.8	9.8	13.6
1977...	824	3.5	12.9	16.4
1978*..	850	3.8	9.7	13.5

*Estimated.

The outlook was for a continuation of this declining trend.

As a result of studies by, and discussions with the Government in respect of the requirements of the service, it came to understand and to appreciate the position of Light. This resulted in the Government's decision to offer to purchase Brascan's interest in Light.

Based on the declining return on investment, the financial position and requirements of Light, and the trends in regulation, the Board of Directors and Management were of the opinion that the best course of action was to accept the Government's offer.

Continuing Involvement of Brascan with Light and Brazil

Although the sale of Brascan's shares in Light has been concluded, it is important to note that our connections with Brazil will continue.

Brascan has investments in Brazil in which it has an equity of approximately $250 million. Although no longer such a prominent foreign presence in Brazil, Brascan is still a major investor with substantial and varied interests. Brascan plans to continue with its stake in Brazil and the Directors and Management believe that these investments, some of which are in the developmental stage, should show increasing profitability.

Brascan and its affiliates have continuing relationships with, or commitments relating to Light as follows:

(a) Notwithstanding completion of the sale, legal proceedings instituted in Brasilia against the purchase of the Light shares by Eletrobrás are continuing. The proceedings were commenced under a law permitting private citizens to dispute Government actions alleged to be against the national interest. Brascan is advised that the grounds on which the proceedings are based are without merit.

(b) The sale agreement provides that Brascan-Administração e Investimentos Ltda., a wholly-owned Brazilian subsidiary of the Company, will be released from all guarantees of the payment by Light of certain annual fees and other fees payable in the event of a default in respect of loans guaranteed by the Government of Brazil. The contingency is approximately $40 million.

(c) Brascan unconditionally and irrevocably guaranteed payment of the principal and interest on $20 million principal amount ($16.5 million remains outstanding) of 8¼% bonds due annually 1979 to 1987 issued by its wholly-owned subsidiary Brascan International B.V. The principal amount was loaned to Light with identical repayment terms.

(d) Brascan holds debentures issued by Light in an aggregate principal amount of $57.9 million. These debentures bear interest at 8% per annum after withholding tax. Debentures having a principal amount of $5 million are redeemed annually. The debentures are fully registered under Brazil's foreign investment legislation and accordingly the principal and interest is remitted to Canada when payable.

Significance of Light to Brascan

To many in the investment community, as well as to a number of our shareholders, Brascan has always been seen as virtually synonymous with Light. This is hardly surprising, given the perceived significance to Brascan of that utility. However, some perspective is required. The earnings of Light consisted of a combination of non-remittable cruzeiros and dollars. It is only the latter component which has been available for dividends to Brascan's shareholders.

The following table, which includes some realistic estimates of 1978 results, illustrates the relative importance of the dividend income from Light as a component of total dollar income:

		Millions	%
Dividends received from Light		$27 (1)	54%
Income from continuing Canadian operations	$11		
Dividend income from other Brazilian investments	4		
Interest income from Light debentures and from Embratel notes (proceeds from the sale of the telephone company)	8	23	46
Total dollar income		$50	100%

(1)This represents a return of 7.1% when measured against the proceeds obtained from the sale of Light ($380 million).

The foregoing represents dollar income before corporate expenses of some $7 million, a portion of which has been required to maintain the Brazilian investments, including Light.

A similar perspective may be drawn in respect of the relative importance of Light's assets to Brascan.

Analysis of Dollar Component of Brascan's Net Assets, Pro-forma as at December 31, 1978

	Prior to Sale of Light (Millions)	%	After Receipt of Light Proceeds (Millions)	%
Brazil:				
Light	$212(1)	37.5%	—	
Other (investment companies, Embratel notes and Light debentures)	159(1)	28.1	$159(1)	21.7%
Canada:				
—Present investments	195	34.4	195	26.5
—Proceeds of sale	—		380	51.8
Net dollar assets	$566	100.0%	$734	100.0%

(1)Registered capital (in equivalent U.S.$) under Brazil's foreign exchange control legislation.

The above table illustrates that Light's significance to Brascan in dollar terms, while large has not been proportionately as great as perceived by many shareholders and others. In terms of realizable dollars, the significance of the Light dividends had already been reduced to about one-half of Brascan's dollar income prior to the sale of Light. Furthermore, the registered equity investment in Light represented 37.5% of net dollar assets at that time.

Use of Proceeds

This reduction in Brascan's dependence on Light was achieved as a direct result of the Company's policy of diversification, pursued and realized over the last 10 years. We believe we have created a record which compares favourably with that of most companies whose principal activities were formerly concentrated in public utilities in developing countries. We are particularly pleased with the performance record of Brascan Resources, which has developed, despite limitations on available capital, into a valuable and productive asset in one of Canada's most interesting growth fields.

As explained earlier in this letter, the Brazilian Government's intention to purchase control of Light became clear late last year. Until the sale was completed our thoughts and efforts were substantially devoted to operating Light in the face of the problems that gave rise to its sale and, more recently, to analyzing and completing the task of selling Light.

Since completing the sale, the Board of Directors and Management together with our investment and legal advisors have studied various alternatives for the future direction and operation of the Company. The alternatives considered included (a) liquidation (b) distribution of substantial sums of cash to shareholders, coupled with continuation and some appropriate expansion of existing businesses and (c) continuation of the established policy of investing in the fields of consumer and industrial goods and natural resources.

Liquidation of the Company would not, in our judgment, be in the best interests of the shareholders. Our judgment in this respect is based upon the uncertainties as to the amounts and timing of realization of asset values, the need to repay debt and preferred shares to a total of about Can. $200 million and the nature of our investments in Brazil combined with our limited capital registration there. In short, we have concluded that a better result for shareholders can be achieved by keeping Brascan as a going concern rather than by liquidating the Company.

We have given thorough consideration to various levels of special distribution to shareholders. Fundamental to our review has been the opportunity available to the Company, as it now stands, for the effective use of cash resources and of the potential for leverage. Any special distribution will have a multiplied adverse effect on Brascan's ability to make appropriate acquisitions. We are considering a number of possible investment opportunities which, based on our work to date, appear to be appropriate for Brascan. We have concluded that it would not now be in the best interests of the shareholders to impair or diminish the Company's ability to make the most attractive acquisitions we can identify in terms of potential growth and dividend yield. For these, we may well require all of the resources at hand. Accordingly, no special distribution to shareholders will be made at this time. We believe, however, that the question should be kept under consideration and resolved only in light of the Company's definitive reinvestment plans and opportunities.

While the results of the reinvestment plan materialize we intend to maintain the dividend at the present level of U.S. $1.10 per annum. The results of this program should provide a sound basis for the consideration of future dividend increases.

On behalf of the Board,

J. H. Moore
Chairman and Chief Executive Officer

Directors

[2] J. H. A'COURT *Toronto*
Senior Financial Consultant to the Company

L. A. ALLEN *Toronto*
Secretary

THIERRY BARBEY *Geneva*
Senior Partner, Lombard, Odier & Cie

[1] A. W. FARMILO *Toronto*
Executive Vice-President

[1] E. C. FREEMAN-ATTWOOD *Toronto*
President

JOHN F. GALLAGHER *Chicago*
Vice-President, International Operations, Sears, Roebuck and Co.

ANTONIO GALLOTTI *Rio de Janeiro*
Vice-President; President, Brascan—Administração e Investimentos Ltda.

J. PETER GRACE *New York*
President and Chief Executive Officer, W. R. Grace & Co.

J. F. GRANDY *Ottawa*
President, Reisman and Grandy Limited

LEWIS B. HARDER *New York*
Chairman, International Mining Corporation

[1,2] N. E. HARDY *London, Ontario*
Vice-Chairman of the Board, John Labatt Limited

[1] R. E. HARRISON *Toronto*
Chairman and Chief Executive Officer, Canadian Imperial Bank of Commerce

[1,2] A. J. LITTLE *Toronto*
Company director

[1,2] A. J. MacINTOSH *Toronto*
Partner, Blake, Cassels & Graydon

[1] PAUL E. MANHEIM *New York*
Limited Partner, Lehman Brothers Kuhn Loeb Incorporated

WILLIAM J. MANNING *New York*
Partner, Simpson Thacher & Bartlett

[1,2] J. H. MOORE *London, Ontario*
Chairman of the Board

JOHN G. PHILLIMORE *London, England*
Company director

P. N. T. WIDDRINGTON *London, Ontario*
President and Chief Executive Officer, John Labatt Limited

1 Executive Committee 2 Audit Committee

Honorary Directors

HERMANN J. ABS *Frankfurt (Main)*

HENRY BORDEN *Toronto*

W. C. HARRIS *Toronto*

BEVERLEY MATTHEWS *Toronto*

Officers

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E. C. FREEMAN-ATTWOOD President

A. W. FARMILO Executive Vice-President

ANTONIO GALLOTTI Vice-President and Senior Corporate Officer in Brazil

L. D. BLACHFORD Vice-President

P. V. GUNDY Vice-President and Assistant to the Executive Vice-President

R. F. LEWARNE Vice-President

D. A. McALPINE Vice-President

W. R. MILLER Vice-President, Finance

R. R. SUTHERLAND Assistant Vice-President, Finance

L. A. ALLEN Secretary

R. H. ELDRIDGE Treasurer

B. A. HENSTOCK Comptroller

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Honorary President, Deutsche Bank AG

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Member of the Bar of the Supreme Court of Belgium and former Brascan Director

THIERRY BARBEY

E. C. FREEMAN-ATTWOOD

J. H. MOORE

JOHN G. PHILLIMORE

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Brascan Limited

AR29

Report of the
annual and special
general meeting
of shareholders
Toronto, May 30, 1978

Summary

The Annual and Special General Meeting of Shareholders of the Company and Special Meetings of Class A and Class B shareholders were held in the Royal York Hotel, Toronto. Mr. J. H. Moore, Chairman of the Board, presided at the meetings.

Approximately 250 persons attended the meetings and the total number of voting shares represented at the annual meeting amounted to 13,918,527 of which 13,080,590 were represented by proxy.

Due to the death of Mr. Louis A.-Lapointe on May 23, 1978 Mr. L. A. Allen was nominated as well as the remaining six persons named in the management proxy circular, for election as directors and all were elected to hold office until 1981.

Clarkson, Gordon & Co. were reappointed auditors of the Company.

By-law No. 40 was sanctioned and confirmed.

The following pages include the Chairman's address and address by the President, Mr. E. C. Freeman-Attwood and a summary of the discussion which followed. Reference is also made to By-law No. 40.

Contents

President's Address

E. C. Freeman-Attwood

I should like to review your Company's operations during 1977. As the annual report has been mailed to shareholders and is also available here at the meeting today, I shall not attempt to repeat all of the information in the report; I shall touch on some of the year's highlights. I shall also comment on the results for the first quarter ended March 31, 1978, and upon some of the events that have occurred since the year end.

Consolidated income before extraordinary gains for 1977 was $145.2 million ($5.47 per ordinary share) compared with 1976 earnings of $102.5 million ($3.87 per ordinary share). In 1977 extraordinary gains totalled $6 million, and in 1976 extraordinary gains totalled $5.5 million. The extraordinary gains in 1977 include a gain of $3.6 million on the sale of the Company's interest in Austen & Butta Limited, and the reduction in 1977 income taxes of $2.4 million as a result of utilizing losses carried forward from previous years. Final net income for 1977 was $151.2 million ($5.70 per ordinary share) compared to net income of $108.0 million ($4.08 per ordinary share) in 1976.

1977 dollar component of earnings was $40.4 million

I would like to remind you that the dollar component of income, as described in the annual report, is the only portion of income available for corporate purposes in Canada and for the payment of dividends. The dollar component in 1977 was $40.4 million after extraordinary gains. This represents 26.7% of total income for the year after such gains.

Net electric utility income from Light increased to $135.4 million in 1977 from $105.0 million in 1976. The increase was due principally to growth in the rate base during the year, though some $8.7 million of profits on surplus lands is also included therein.

In 1977 Light's energy sales increased by 9.9% over 1976 to 35.5 billion kilowatt hours, and energy purchased from government sources totalled 76.6% of the company's total electricity. The number of customers increased 4.6% by year end to 4.4 million.

Light was granted an average rate increase for 1977 of 36%. During the year, however, a number of changes were made in legislation affecting the remunerable rate base. Not all these changes have yet been regulated by the sector authorities. However, Light is deemed to have earned 12% on such rate base after taking into account the estimated effect of these changes, together with a portion of accumulated excess earnings.

In January 1978 an average rate increase of 32% was granted. The estimated revenues of the year are expected to provide for approximately 11% return on the forecast rate base, since certain operating expenses are being arbitrarily restricted by the regulatory authorities. Light is making representations to improve this situation. The 1978 rates do, however, provide for increased depreciation charges on distribution plant, the annual rate being raised from 3% to 4%.

Light's capital expenditures program totalled $285 million in 1977 compared to $262 million in 1976. Expenses were higher than originally planned due primarily to increases in the cost of construction and equipment. A sizeable remedial work program on the Guarapiranga dam in the São Paulo system was also undertaken as a result of abnormally heavy rainfall in 1976. Capital expenditures for 1978 are forecast at $325 million.

During the year Light arranged syndicated Eurodollar loans totalling $170 million. Light also placed its first two public bond issues in Europe, one for DM 100 million, the other for $50 million. The Brazilian government guaranteed these issues.

Light still has major capital problems

Light is still faced with the problem of raising sufficient capital to meet expansion demands. With insufficient tariffs Light cannot generate a reasonable portion of funds internally and yet does not have access to sources of funds made available to other electric utilities in Brazil. Thus the company must rely on the more expensive shorter-term funds available in international markets for financing its capital expansion. This problem is expected to grow more serious in 1978 as the recently granted rate increase appears inadequate to maintain a full remuneration level.

Light's long-standing dialogue with the Brazilian government continues to focus on the search for a satisfactory long term solution to enable the company to meet the demands of expansion while fulfilling its obligations to customers, creditors and shareholders.

In 1977 the new Brazilian Corporation Law became effective and Light, as a so-called "open company" with its 150,000 shareholders, has made adjustments to comply with this legislation. The new law, the first revision of its kind since 1937, is in keeping with the requirements of Brazil's growth as an industrial nation, and is designed to strengthen the country's capital markets. A securities commission has been created, and the law draws on many North American standards of comportment and disclosure.

Changes in income tax legislation were also enacted in 1977. As a result of this legislation, special monetary corrections of plant in service and monetary corrections of accumulated depreciation were booked. These corrections increased Light's net plant in service and thus its rate base. The company's net electric utility income in 1977 increased by $5.3 million as a direct result of these changes. However, the position of the regulatory authority on these changes is not yet clear.

Income from the company's other Brazilian investments increased to $9.6 million in 1977 compared to $9.3 million in 1976. With the exception of Swift Armour, all of the Brazilian investments showed positive results in profitability and growth potential. Notable improvements in income were shown by Banco Brascan which had pre-tax earnings of $9.3 million in 1977 compared to $7.9 million in 1976, and Jacundá, the tin mining operation, which increased earnings to $800,000 this year compared to $200,000 in 1976.

Swift Armour experienced adverse export conditions, supply shortages and diminishing volumes, and a government-controlled local price squeeze.

In early 1978, the real estate sector was reorganized, with new management, under one administrative body, called Brascan Imobiliária S.A., or BISA. BISA will control all of Brascan's current real estate activities and will provide management expertise and services on other real estate matters and new joint ventures and development projects.

Skol-Caracú's new 1.2 million hectolitre brewery in São Paulo is now in operation after some initial start-up problems and should assist in meeting our expectation for that company's profitable growth.

Turning to our Canadian investments, results improved to $6.7 million in 1977 compared to $4.5 million in 1976 before the Sukunka write-down. Earnings from the Canadian sector would have been higher still, were it not for exchange losses on translation due to the decline in value of the Canadian dollar compared to the U.S. dollar. In 1977 these translation losses totalled $2.8 million.

In this sector, Brascan Resources was particularly successful, with pre-tax earnings of $10.7 million in 1977 compared to $5.7 million in 1976.

The Company holds approximately 67 billion cubic feet of shut-in gas reserves in Alberta, which should be put into production in the next few years. At the present time, however, no new sales contracts can be obtained due to the industry oversupply of natural gas. This temporary oversupply–or "gas bubble" as it is called–is attributed to the Canadian government's policy of limiting gas exports to the U.S., a decline in industrial activity in Eastern Canada, and competition from fuel oil.

The outlook for Brascan Resources is favourable. The company has acreage interests in both the Pembina area in Alberta and in the Hutchison Block of the Beaufort Sea, two promising oil and gas exploration plays which have received considerable attention lately.

Brascan Resources 1977 cash flow exceeded exploration costs

During the year, cash flow from operations increased to $14.0 million from $8.5 million in 1976 and for the first time exceeded the annual cost of the oil and gas exploration program.

John Labatt Limited continued its strong performance through the first nine months of its year, with both sales and net earnings increasing.

As was announced at the annual meeting of shareholders last year, Brascan added an investment in an insurance company to its Canadian financial services sector. Brascan purchased a 37% interest in Lonvest Corporation, a company which holds a 66% interest in London Life Insurance Company.

I should now like to comment briefly on the earnings of the first quarter ended March 31, 1978.

Net income increased to $39.2 million or $1.48 per ordinary share from $33.2 million in 1977 or $1.24 per ordinary share.

Net electric utility income was $39.1 million, an increase of $5 million over the first quarter of 1977. Effective January 1, 1978 Light was granted an average rate increase of 32%. Current estimates, based in part on statements by the regulatory authorities, indicate that projected 1978 operating revenues should provide an approximate 11% rate of return on the 1978 rate base instead of the regulatory maximum of 12%.

Energy sales for the quarter were 9.2 billion kilowatt hours, an increase of 9.8% over the first quarter of 1976. Capital expenditures during the period total $54.8 million. Forecast capital requirements for 1978 amount to $325 million.

In April Light arranged a DM 150 million 6¾% bond issue with an 8-year term. This issue is guaranteed by the Brazilian government.

In the first quarter the Brazilian investment sector incurred losses of $500,000 compared to a gain of $1.2 million in the first quarter of 1977. The unfavourable results are due to a general weakness in all sectors. Banco Brascan, usually a strong contributor to overall earnings, was faced with narrowing margins and a squeeze in profits in the quarter. This was a reflection of a slowdown in business activity in Brazil, a moderation in demand for loans, and narrower spreads.

Decline in Canadian dollar affected first quarter results

The Canadian investment pool showed income at $2.2 million for the first quarter compared to a loss of $700,000 in the corresponding period last year. Exchange losses on translation of Canadian dollars amounted to $2.4 million. Great Lakes Power, at Sault Ste. Marie, and Brascan Resources' oil and gas operations, were major contributors to the first quarter's positive results.

It may be of interest to shareholders that subsequent to the quarter, Imperial Oil Limited announced that it had made a natural gas discovery in the Beaufort Sea on acreage in which the company has a 3% working interest. This test well indicated an estimated absolute open-flow rate of about 20 million cubic feet a day. The well has been abandoned as is the practice with offshore exploration operations.

Imperial is planning further evaluation in the area including drilling from another artificial island about five miles to the north of the current well on acreage on which Brascan has a similar working interest.

With the present gas surplus situation, our company is moving away from expansion of its shallow gas interests to concentrate on the search for oil mainly in Alberta.

I should not end without making mention of a project to which reference was made in the annual report. Your company is continuing the examination and feasibility of reconstruction of the St. Mary's River generating plant of Great Lakes Power. The requisite government approvals are being sought to permit a decision to be made on this project. The cost thereof is currently estimated at Can. $90 million.

May I now turn this meeting back to our Chairman.

Chairman's Address

J. H. Moore

The President has covered the highlights of the Company's operations for 1977 and the first quarter of 1978.

From his remarks and the information in the annual report I am sure you all realize the importance of Light to your Company.

Key factors to consider based on 1977 are that only $40.4 million, or 27% of the total Company's earnings are in dollars and are available for dividends and corporate purposes. Of this $24.2 million, or 72%, was provided by Light.

The asset distribution is also important to note. $2.2 billion, or 73%, being attributable to Light; $469 million, or 16%, attributable to other Brazilian investments and $328 million, or 11%, attributable to Canadian investments. Due to investment priorities—the capital required to service Light and currency restrictions in Brazil—the Company is not able to transfer its investments from one category to another.

Because of the overall importance of Light to the Company I would like to comment on some aspects of the environment in which it is operating.

Brascan and its predecessor companies have had, to give this a Latin flavour, a continuing love affair with Brazil over the past 80 years. The Company was founded to develop and service an effective infrastructure for the Rio-São Paulo region. At one time this included gas, tramways, telephone and electric power generation and distribution. Today its principal business is the distribution of electric power.

Infrastructure and energy are essential for the development of any economy and the creation of employment—both of which are needed to create national wealth and investment and the revenues to provide essential social services. Since its inception Light has contributed in a major way to the development of its concession area, comprising approximately 21 million people—almost the size of Canada's population.

This is an election year in Brazil and Brazilian politicians, like politicians in all countries, need issues. Light has been the subject of some public discussion by politicians and others in recent months and this has been reported in the Brazilian press.

Most of you, like me, don't have access to Brazilian papers and don't read Portuguese. However, I do receive extracts relating to Light which are translated into English. Some of these are, or may be, reviewed in North American papers. Today I thought it might be appropriate to comment on some of the issues covered in the Brazilian papers.

The press speaks of Light as having antiquated plant, as providing poor quality service, high cost service and when and how either one or more of the States or the Federal Government should purchase Light and for what price. There are many varying views on these subjects.

If one hadn't seen much of this on and off over a number of years–one might believe the love affair had turned into a love/hate relationship–of which it may have had some elements anyway–or to use a Brazilian expression, perhaps some Brazilians would like to exchange an old mistress "Light" for two younger ones "Furnas" a Federal Government Company and "CESP" a state of São Paulo Company.

70% of Light's plant is less than 10 years old

What are the facts as we see them.

1. Capital expenditures by Light over the last ten years amounted to $1.5 billion. 70% of the plant is less than ten years old; it is certainly not antiquated.

2. During this period the best available technology has been used to develop and expand the system. The use of high voltage circuits up to 500,000 volts increases dependability and reduces unit costs. Advanced technology is being used in new transformer stations in the densely populated areas of Rio and São Paulo. An increasing portion of transmission and distribution circuits are being installed underground away from the hazards of deterioration caused by air pollution and traffic. New operating and maintenance techniques and equipment enable an increasing proportion of maintenance functions to be carried out without service interruption.

3. Light's capital resources are limited and the prime goal of the capital program has been to accommodate the rapid growth in demand. Improvements in the quality of service have been a secondary goal. Effective long term planning has been hampered by a deteriorating regulatory climate.

4. Light receives remuneration on a cost of service basis under Federal Government regulations and receives a maximum of 12% on its net plant in service from which it must deduct financing costs leaving an effective 8.9% return after financing costs in 1977.

5. In 1977, of the total amount billed to Light's customers, 28% or $454 million was taxes and other levies collected on behalf of Government, much of which was used in other parts of the power sector. Less than 1% was made available to Light.

6. Only 33% of the costs are controlled by Light, the balance of 67% is the cost of power purchased from Federal or State generating companies, the cost of which to Light is set by the Government. From this one can readily see that power rates, as they are in most other countries, are the direct responsibility of Government.

There has been much discussion about the benefits that Light enjoys from not being involved in a substantial way in the generation of power. Let me examine this for you.

Light—a distribution system—is people intensive

1. First the similarities between the two functions: both are controlled by regulation, both are capital intensive—the capital required for distribution being approximately equal to that required for generating the power distributed.

2. The Differences

i Distribution is people intensive—the operation of generating plants is not.

ii Distribution is system development intensive—generation is not.

iii Distribution requires a large number of supervisory people—generation does not.

iv Distribution is service oriented and requires a large number of trained people to perform the service.

v Distribution is subject to delay in collection of a large number of accounts and requires substantial capital to finance accounts receivable—generation has a few large customers who pay monthly, and on time, as billed.

vi There are other differences—distribution is not considered as glamorous as generation—certainly during the construction period.

However, design and operation of a distribution system is technically challenging and requires special management skills. Light is well served by a competent technical group.

3. I want to enlarge upon one particular element of the difference—people. Recently the rate setting authorities have been setting in advance the annual cost relating to employees. This may be a useful form of discipline provided it is imposed with due recognition of operating requirements. People provide service and as a system grows—as Light has—there must be both an upgrading of skills as well as an increase in personnel relative to system growth. The increase in the number of employees can of course be contained to some extent by increases in productivity. This has occurred in Light. Some productivity gains can be achieved by training and some by the use of more sophisticated and larger equipment. Light has excellent training programs and has achieved much in this area. It can also be achieved by the use of sophisticated controls and modern equipment—here productivity improvement has been limited by restrictions on available capital and import controls restricting the importation of certain sophisticated equipment not available in Brazil.

To illustrate—several statistics comparing 1972 with 1977:

kWh billed in 1972	22.4 billion
kWh billed in 1977	35.5 billion
An increase of 58%	
Employees in 1972	26,000
Employees in 1977	32,000
An increase of 22%	
Employees per million kWh—1972	1.16
Employees per million kWh—1977	.89
A decrease of 23%	

You can see from these summary statistics that there has been a major improvement in productivity during the five year period.

We and Light management in Brazil believe that the restrictions placed on the number of employees by the regulatory authority are not realistic; placing an unfair burden on the Company and its employees will result in an unnecessary deterioration of service.

Government actions have reduced cash flow and earnings

Another critical area is cash flow.

The mechanics of rate setting have been changed in the past four years.

The changes have reduced cash flow by $178 million over this period and earnings by $140 million.

Earnings and cash flow are both important to service equity capital and to finance an adequate proportion of the cost of capital expenditures.

Cash flow, however, is critical and in North America most private electric utilities plan to finance a substantial portion of their capital program from internally generated cash flow. These utilities are, for the most part, mature utilities with relatively modest growth rates and with access to equity markets and funds for a period of up to 25 years in the term lending market.

Looking at Light, we see a rapidly growing utility with a very substantial capital program. Yet it does not have access to equity markets and recent funds available to Light have been borrowed for varying terms ranging up to 8 years for the final maturity. This means that Light must use an increasing part of its earnings and cash flow to service and amortize its debt load. This is accentuated by the fact I referred to earlier, that 28% of amounts collected from Light's customers are paid over to the government. The 1978 capital program will be financed entirely with borrowed funds.

The Press in Brazil has also mentioned that the Light generating plants, which are close to both Rio and São Paulo, should be increased in capacity and used as peaking plants and with this we would agree; that the rationalization of distribution on a state basis would be easier if Light were publicly owned, and with this we would also agree.

Lastly that the water in Light's reservoirs should be used to alleviate the sewage and pollution problems of the City of São Paulo and that this would be easier to achieve if Light were publicly owned. With this we would also agree but would point out that Light has to the best of its ability co-operated in the use of these reservoirs in the public interest.

Where does all this leave Light? Brascan has stated on many occasions that if the Government of Brazil wishes to acquire Light we will co-operate. We believe that proper compensation should be based on book values which have recently been confirmed by a government examination, or tombamento, of Light's assets.

We are relying on the integrity of the Brazilian Government and its people to treat the investors of Brascan fairly if they wish to acquire Light.

"We have no proposal involving the sale of Light"

I should say that at present we have no proposal involving the sale of Light.

For the future this leaves two possible paths of investment for Brascan, one with Light and one without Light. With Light we continue to serve with the help of the Government in providing credit facilities or back-up investment for Light and fair rates. Without Light we will re-deploy our assets and will be investing in Brazil and Canada.

Brazil and Canada are two countries with a wealth of natural resources, people with increasing levels of technical competence and education, both however, with large needs for capital and technology—both with the

requirement to set priorities, both with a need to appreciate the appropriate treatment and values of capital and technology–national and foreign.

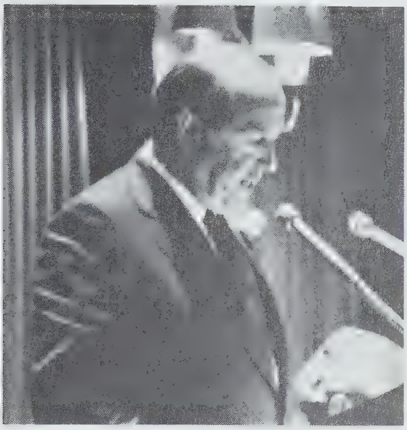
We are confident of our ability to manage either scenario, subject of course to the economic and political environment. We believe Brascan will continue to be both interesting and profitable for its shareholders as it invests in two countries. Each country is rich in resources, each searching for priorities and its place in the sun.

Each country must determine its policies and strategies and realize that time is a precious asset not to be wasted by delays in making critical decisions; decisions which should be made in consultation with the sectors of the economy affected–but decisions which in the end are a political responsibility and must be made.

Before closing I would like to tell you that, at their meeting immediately prior to this meeting, the Directors declared the regular 25¢ dividend per ordinary share, together with an extra dividend of 10¢ per ordinary share, both payable July 31, 1978 to shareholders of record July 1, 1978.

Finally I would like to pay tribute to the efforts of the thousands of employees in Brazil and Canada who are associated with Brascan and to thank them on your behalf for a job that in 1977 was indeed well done.

Questions and Answers



Transfer of assets

What is the possibility of Brascan divesting its operations in South America and moving solely to North America?

To put it briefly, the possibility is very remote. Only a certain portion of our capital is registered in Brazil and as such, only that portion of the total could be taken out of the country to Canada or anywhere else. Thus, there is an element of inflexibility in the transfer of our assets from one region to another.

Capital program

In 1977, Light generated only 12% of the funds required to finance its capital program. The 1978 program is estimated to total $325,000,000. Have financing plans been made to borrow the remaining $286,000,000?

The financing is virtually in place for the required amount, on terms of up to 10 years.

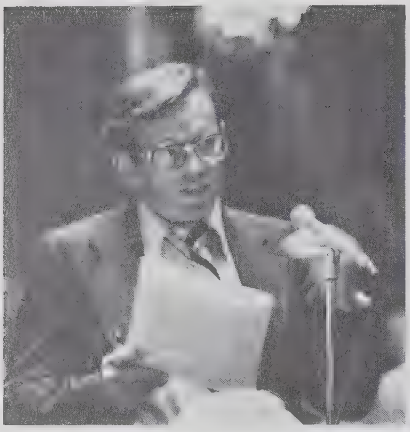
Repayment of loans

Based on the present borrowing of approximately $250,000,000 per year, in 2 years the long term debt will amount to over $1,300,000,000. Is the company approaching almost certain failure to meet the increasing obligations as they mature, leading to serious financial difficulty if relief extensions and arrangements are not made?

If there is no extension or roll-over credits, then it would be financial disaster. However, the Brazilian Government is guaranteeing this debt and in the 1975 discussions they stated they would provide roll-over credit should that become necessary.

Discussions with Brazilian Government

Brascan is seeking to formalize the understanding with the Brazilian Government reached in November 1975 concerning revisions in the regulatory system and government financial assistance with Light's Capital expansion program. What is the present status of the discussions and what are the reasons for the 2½ year delay?



When one talks with Government, it is a continuing series of discussions. Our current talks are proceeding and from month to month, week to week, they focus on critical issues. Meanwhile, the Government has provided guarantees for our financing and has said that it will continue to support our program. However, like most governments, it is reluctant to formalize these agreements in writing. I must also point out, that when governments do enter into such agreements, the arrangements are good only for the duration of that government.

Capital expenditures

Is the present dollar dividend secure in view of the financing difficulties with the capital expenditure program in Brazil?

In our discussions, the Brazilian Government has agreed that Brascan's shareholders are entitled to a fair return. There is no indication that the government has changed its position on this.

Directors' meetings and fees

How many Directors' meetings are held each year and what fees are paid to outside directors?

There are 6 regular Directors' meetings per year and the Executive Committee meets at least once a month when the Directors don't convene. Each Director is paid $5,000 as a retainer fee plus $250 attendance fee for each meeting. Additional retainer fees are paid for serving on various committees.

"Other"—cash on hand

On Page 5 of the Annual Report in the lists of Brascan's investments in Brazil and Canada, there is an item marked "Other", one of $87,000,000 and one of $71,000,000. What do these sums represent?

In the Brazilian investments, "Other" includes the notes received on the sale of the Telephone Company, and cash on hand. In the Canadian investments, "Other" is principally cash on hand.

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Stock dividend

In view of the fact that a stock dividend hasn't been paid since 1974, when will it be resumed?

Every time the Directors declare a dividend, which is once per quarter, the entire dividend policy is reviewed. In 1976, we did not pay a stock dividend, in light of the circumstances at the time. There is only a certain amount of dollar income available for dividends and if you raise the share base through the declaration of stock dividends, you eliminate some of the potential for cash dividends. On page 6 of the Annual Report, you will notice that of the $5.47 earnings per share, only $1.27 is in dollars and available for ordinary dividends. Brascan currently disburses as dividends, approximately 87% of its dollar income.

$1.50

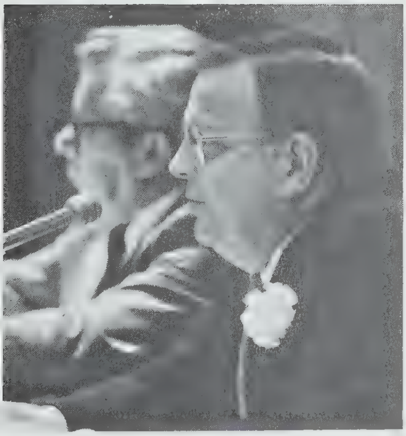
Sale of Austen and Butta

Was there any restriction on the transfer of the return of capital from Australia after the sale of Austen and Butta?

No, there was no restriction on the return of capital.

Pembina oil field

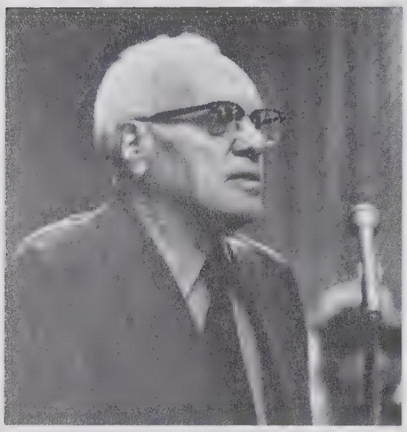
What size is the acreage held by Brascan Resources in the Pembina oil field?



A. W. Farmilo

(A. W. Farmilo) Brascan Resources has 60,000 acres in the Northeast Pembina area, west of the fifth meridian, the petroleum and natural gas rights of which are held by Imperial Oil. On this 60,000 acres we have a 9% gross over-riding royalty which gives us income equal to approximately 21 or 22% working interest on those properties if oil or gas is found.

In addition, we hold approximately 1,000 acres of other rights in the Pembina area, none of which are currently producing.



Dome Petroleum

When do you expect to receive a cash flow from the oil and gas wells drilled by Dome Petroleum?

(A. W. Farmilo) At the risk of acting as a prophet, I would say that we should not expect to receive any income or cash flow from the Beaufort Sea operations for at least 10 years.

Audit Committee

Does Brascan have an active Audit Committee of the Board of Directors? Does the internal auditor submit a report to the Audit Committee every year?

Brascan has a very active Audit Committee which convenes at least once a quarter. The internal auditor from Light was present at the last meeting and does submit a regular report to the Audit Committee.

Investment capital

On Page 32 of the Annual Report, it shows that the dollar income was $1.27 and the extraordinary gain was 17 cents for a total availability of $1.44. Since the Company is paying a dividend of $1.10, what is to be done with the remainder?

The amount not distributed is used for investment in Canada or is held for future investment. Our dividend of $1.10 is a higher percentage of available earnings than that of most Canadian and U.S. companies.

Dividend increases

What is the maximum that the Anti-Inflation Board allows you to increase dividends?

Last year the maximum was 8% and this year it was 6.2%. In 1977, we paid the maximum dividend allowable under Anti-Inflation Board restrictions.

Price of Brascan stock

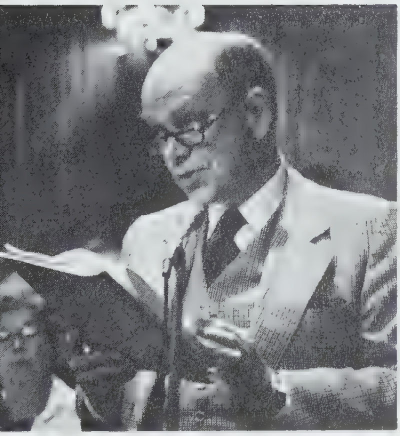
Now that you have made your presentation to the shareholders and the press concerning the eventual nationalization of the Brascan utility, do you expect that the stock will drop in price?

No, I don't anticipate that. In making the presentation I explained the facts of the situation in order to avoid having a North American reporter pick the information out of a Brazilian paper and give an inaccurate report.

We believe and have confidence in the integrity of the Brazilian Government and people. We trust that if they take over Light, they will pay fair value.

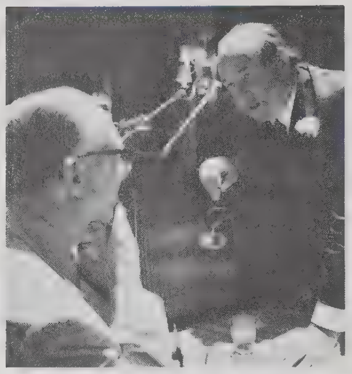
Tax penalties

It seems that the $1.27 per share we have available is an amount determined by choice because, according to the withholding tax mentioned on Page 39 of the Annual Report, we could be taking more out of Brazil if we chose to pay the additional tax penalties?



Let me deal with this proposal on a broad basis. As far as Light is concerned, we don't really have the option to withdraw more money from Brazil, because the funds are required to finance the utility's capital program. As long as we are sensible in our approach to a return on our equity in Light, the dollars we draw from it are secure. It is my opinion that paying excessive tax penalties just to draw additional money out of Brazil is not a reasonable option. The money is used more wisely when it is invested in Brazil.

At the Meeting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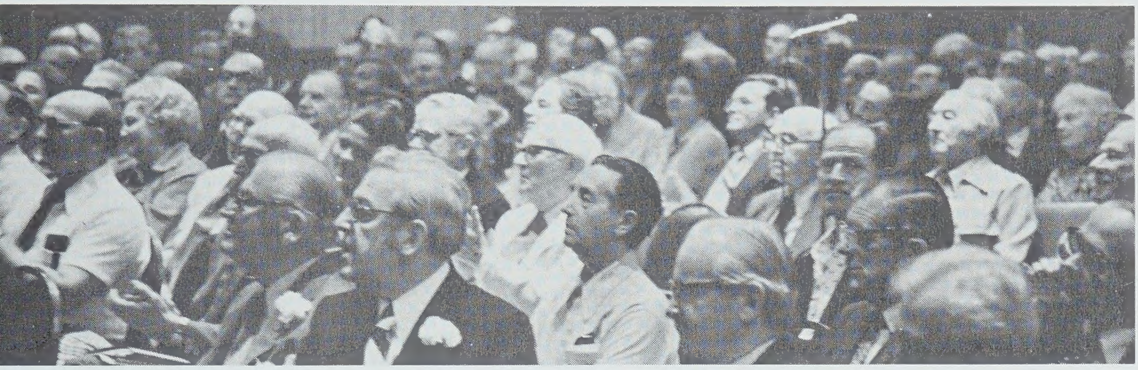
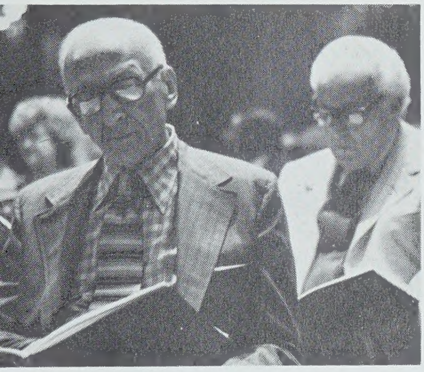
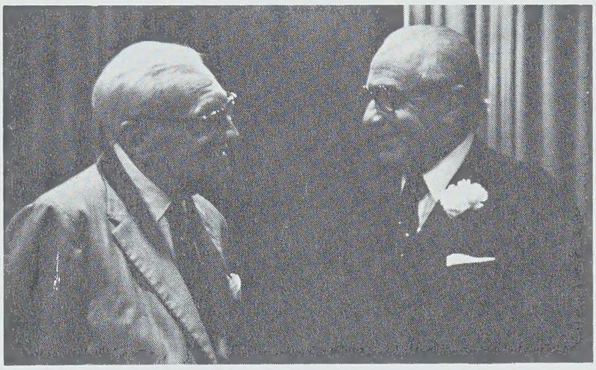
1. J. H. Moore with shareholder.
2. L. A. Allen with shareholder.
3. Dr. A. Gallotti with shareholder.
4. R. E. Harrison with shareholder.
5. W. R. Miller with shareholder.
6. A. W. Farmilo with shareholder.
7. E. C. Freeman-Attwood with shareholder.







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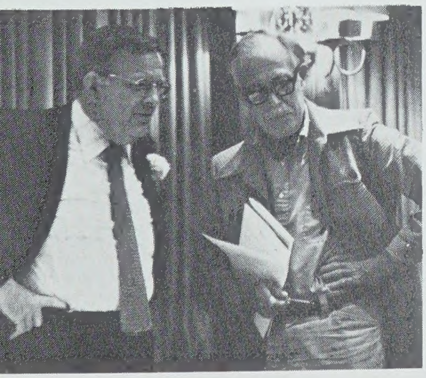

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Special General Meeting

The Chairman stated that the meeting had been called as a Special General Meeting of the shareholders and Special Meetings of the Class A and Class B shareholders for the purpose of considering By-law No. 40 which, to be effective, requires that it be sanctioned by two-thirds of the votes cast by the holders of the voting shares as a whole, and also by two-thirds of the votes cast by the holders of each of the Class A and Class B ordinary shares.

By-law No. 40, enacted by the Board of Directors on April 17, 1978, is a by-law authorizing an application for supplementary letters patent altering the capital of the Company and will, if sanctioned at this meeting and confirmed by supplementary letters patent, alter the terms and conditions of the Class B shares to permit the directors in their discretion to declare and pay a stock dividend on the Class B shares in an amount equivalent to a cash dividend concurrently declared on the Class A shares.

The Chairman stated that the Class B shares were created in 1973 in order to provide tax deferral on dividends to shareholders who might benefit, as permitted by amendments to the Income Tax Act made in that year. These provisions of the Income Tax Act are due to expire at the end of this year, but a stock dividend as contemplated by By-law No. 40 would continue to provide tax deferral to Class B shareholders.

Since the Class A and Class B shares are and will continue to be fully inter-convertible, each shareholder would have a free choice as to whether he would wish to receive a stock dividend on Class B shares, or an equivalent cash dividend on Class A shares. However, in order to preserve equity between shareholders, the right of conversion would be suspended between the date on which a dividend is declared, and the record date for payment.

The Chairman explained that he had received a small number of proxies instructing him to vote against confirmation of By-law No. 40 and for this reason he required a poll be taken and that he would cast both positive and negative ballots thus reflecting the wishes of every shareholder who had lodged a proxy whether for or against the By-law. As a result of the poll By-law No. 40 was sanctioned and confirmed by 99% of each of the Class A and Class B votes cast and 99% of the total votes cast.

Directors

J. H. A'Court *Toronto*
L. A. Allen *Toronto*
Thierry Barbey *Geneva*
A. W. Farmilo *Calgary*
E. C. Freeman-Attwood *Toronto*
John F. Gallagher *Chicago*
Antonio Gallotti *Rio de Janeiro*
J. Peter Grace *New York*
J. F. Grandy *Ottawa*
Lewis B. Harder *New York*
N. E. Hardy *London, Ontario*
R. E. Harrison *Toronto*
A. J. Little *Toronto*
A. J. MacIntosh *Toronto*
Paul E. Manheim *New York*
William J. Manning *New York*
J. H. Moore *London, Ontario*
John G. Phillimore *London, England*
P. N. T. Widdrington *London, Ontario*

Honorary Directors

Hermann J. Abs *Frankfurt (Main)*
Henry Borden *Toronto*
W. C. Harris *Toronto*
Beverley Matthews *Toronto*

Officers

J. H. Moore *Chairman*
E. C. Freeman-Attwood *President*
A. W. Farmilo *Executive Vice-President*
Antonio Gallotti *Vice-President and Senior Corporate Officer in Brazil*
L. D. Blachford *Vice-President*
R. F. Lewarne *Vice-President*
D. A. McAlpine *Vice-President*
W. R. Miller *Vice-President, Finance*
R. R. Sutherland *Assistant Vice-President, Finance*
L. A. Allen *Secretary*
R. H. Eldridge *Treasurer*
B. A. Henstock *Comptroller*
A. C. Duncan *Assistant Secretary*
C. A. Minchom *Assistant Treasurer*

Auditors

Clarkson, Gordon & Co.

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